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**AID AND TRADE ACTIVITIES OF COMMUNIST  
COUNTRIES IN LESS DEVELOPED AREAS  
OF THE FREE WORLD  
1 JANUARY - 30 JUNE 1965**

**EIC R14-S19**

**AUGUST 1965**

**ECONOMIC INTELLIGENCE COMMITTEE  
of the  
UNITED STATES INTELLIGENCE BOARD**

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FOREWORD

The EIC-R14 series provides periodic summaries and analytical interpretations of significant developments in the economic relations and military aid activities of Communist countries with less developed countries of the Free World. These developments are reported on a current, factual basis in the Biweekly Reports in the EIC-WGR-1 series.

This report, covering the 6 months from 1 January through 30 June 1965, constitutes the nineteenth periodic supplement to EIC-R14, the initial report on Sino-Soviet Bloc Postwar Economic Activities in Underdeveloped Areas, 8 August 1956, SECRET. The present supplement updates the previous semiannual report and includes the more significant developments during the reporting period. It also relates noteworthy noneconomic activities, including military aid, to economic operations of the Communist countries in less developed areas. Data have been revised to include new information, and figures in the current supplement supersede those in previous issues. This report was prepared by the Department of State and the Central Intelligence Agency. The draft was reviewed and coordinated by a Working Group of the Economic Intelligence Committee, which includes representatives of the Department of State, the Defense Intelligence Agency, the Departments of Commerce and Agriculture, the Agency for International Development, the National Security Agency, and the Central Intelligence Agency. The final report was approved by the Economic Intelligence Committee on 12 August 1965.

In this report the term Communist countries refers primarily to the following countries that extend aid to less developed countries of the Free World: the USSR, Communist China, and the following countries of Eastern Europe -- Bulgaria, Czechoslovakia, East Germany, Hungary, Poland, and Rumania. For certain limited purposes the term also may include Albania, Cuba, Mongolia, North Korea, and North Vietnam, none of which is normally a donor of aid. Yugoslavia is not included.

The term less developed countries of the Free World includes the following: (1) all countries of Africa except the Republic of South Africa; (2) all countries in South and Southeast Asia; (3) Iceland, Portugal, and Spain; (4) all countries in Latin America except Cuba; and (5) all countries in the Middle East, including Cyprus, Greece, Syria, Turkey, and the United Arab Republic.

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IN LESS DEVELOPED AREAS OF THE FREE WORLD  
1 JANUARY - 30 JUNE 1965

Summary

New Communist economic aid undertakings in less developed countries continued at a relatively high level during the first half of 1965 (see Figure 1). Communist economic credits and grants extended during the period totaled US \$458 million, bringing to almost \$7 billion the aggregate of economic assistance extended by all Communist countries since early 1954 (see Figure 2). The USSR may have agreed to contribute as much as \$1 billion to India's Fourth Five Year Plan (1 April 1966 - 31 March 1971), a sum not included in these figures.

The countries of Eastern Europe accounted for almost 80 percent of the total of new aid extended during the period, with East Germany, the largest donor, extending \$191 million in aid. The USSR and Communist China extended \$62 million and \$43 million, respectively, in new economic aid, substantially below the half-year levels of 1964. The United Arab Republic (UAR) was the recipient of nearly 40 percent of the total Communist aid extended during the period.

Drawings on Communist economic aid during the first half of 1965 totaled \$238 million, bringing to nearly \$2.4 billion the aggregate of such drawings since 1954. Outlays under aid provided by the USSR and the countries of Eastern Europe totaled \$179 million and \$33 million, respectively. Chinese Communist aid expenditures -- buoyed up by \$15 million in cash transfers -- continued their upward trend, amounting to \$26 million.

The number of Communist economic technicians employed in less developed countries rose to more than 16,800, continuing the upward trend that has characterized the program since its inception. While the numbers of Soviet and East European economic technicians increased moderately, the number of Chinese personnel increased by about 75 percent. Six countries -- Afghanistan, Algeria, Guinea, India, Mali, and the UAR -- accounted for more than 60 percent of all Communist technical personnel.

In June, 228 students graduated from People's Friendship University, the first group to graduate from this Soviet academic institution. During the 6-month period, only 145 new students enrolled in study programs in Communist countries, continuing the downward trend of such new arrivals evidenced since 1962. From a peak of 5,100 new enrollees in 1962, the number of arrivals dropped to about 3,100 in 1963 and to

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slightly more than 2,000 in 1964. About 760 technical personnel from less developed countries undertook technical training programs in Communist countries during the first half of 1965.

Only three small military aid agreements were concluded during the period, but negotiations between the USSR and a number of less developed countries continued in high gear, and deliveries under existing agreements were maintained at a relatively high level. There was also an increase in the flow of Soviet arms to dissident groups -- particularly in Africa. Much of it was channeled through such intermediaries as Algeria and the UAR. The number of Communist military technicians employed in recipient countries rose moderately to a level of 3,750, while an additional 1,210 military personnel from these countries initiated training programs in Communist countries.

Trade turnover between the Communist countries and the less developed countries during 1964 totaled about \$3.3 billion, an increase of 13 percent above the level of 1963. This growth in trade during the year was due almost entirely to increases in Eastern European and Chinese Communist trade with the less developed countries. Although the Communist countries continued to account for a small share (about 5 percent) of the total trade of the less developed countries, they nevertheless continued to occupy a preponderant share of the trade of such countries as Afghanistan, Cambodia, Guinea, Mali, Syria, and the UAR.

Among the respective less developed areas, Asia continued to account for the largest share -- 41 percent -- of Communist trade with the less developed countries. The Middle East represented 30 percent of the total; Latin America and Africa, 13 percent each; and the less developed countries of Europe, 3 percent. India and the UAR alone accounted for 35 percent of Soviet and East European trade with the less developed countries. Most of China's trade was with Argentina, Burma, Ceylon, Indonesia, and Malaysia.

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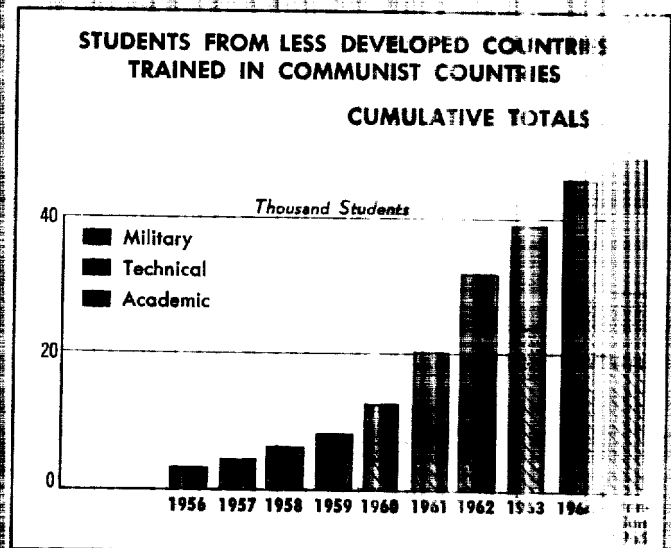
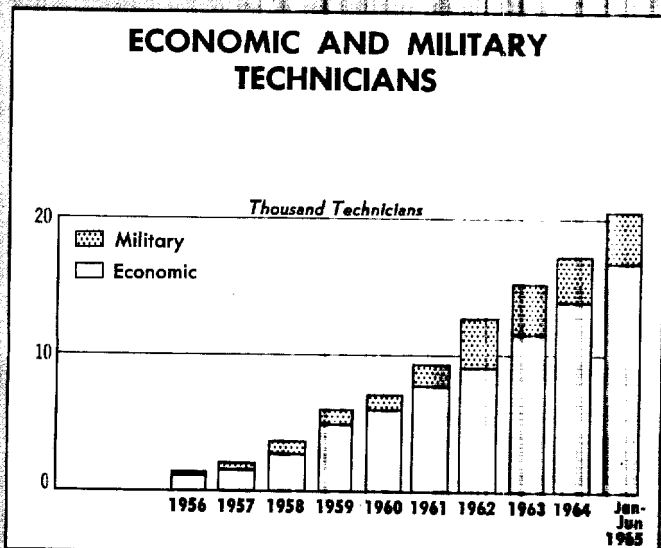
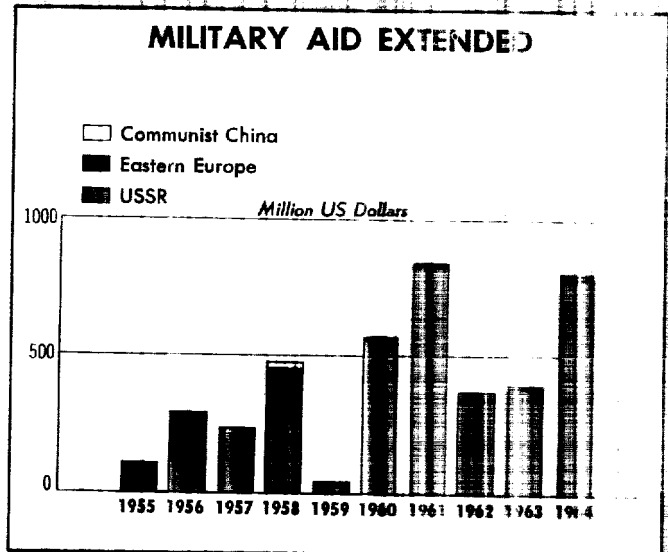
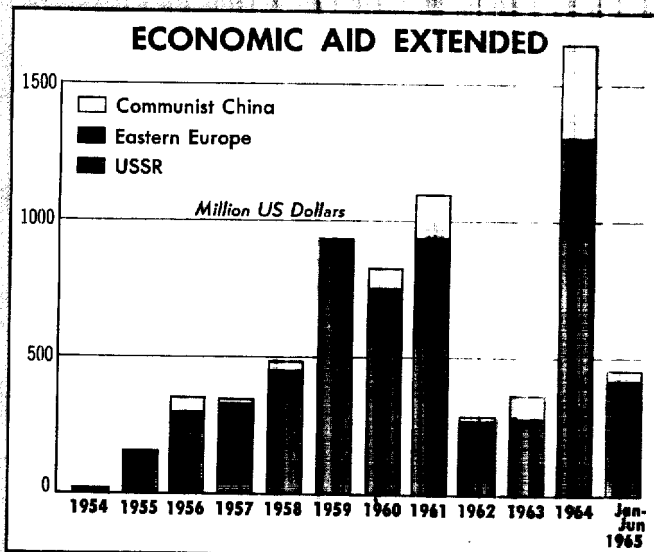


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# ECONOMIC ACTIVITIES OF COMMUNIST COUNTRIES IN LESS DEVELOPED COUNTRIES OF THE FREE WORLD\*

Selected Years 1954-June 1965

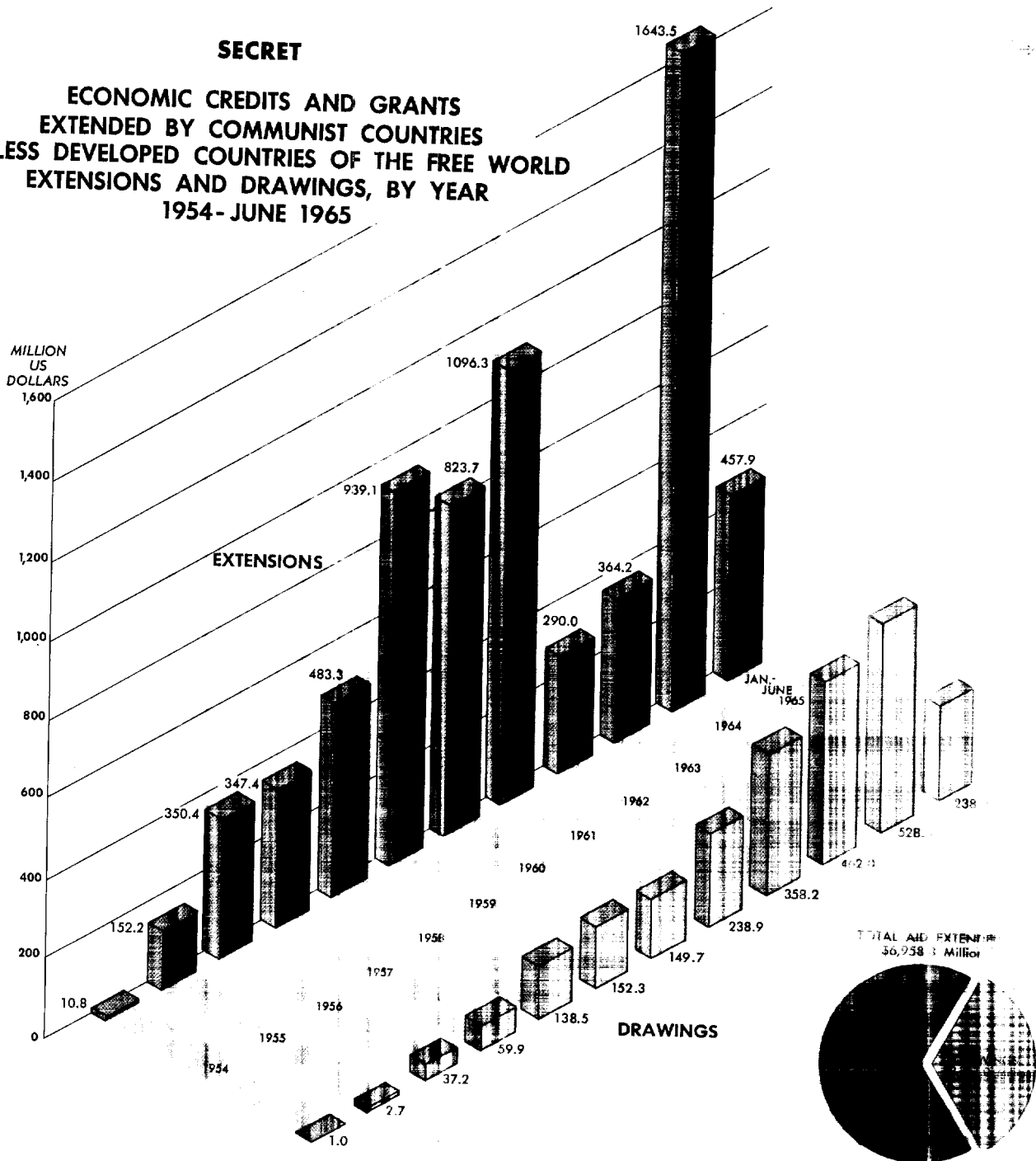


\*Data are revised periodically to include new information and there may not be comparable with data previously presented.

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**ECONOMIC CREDITS AND GRANTS  
EXTENDED BY COMMUNIST COUNTRIES  
TO LESS DEVELOPED COUNTRIES OF THE FREE WORLD  
EXTENSIONS AND DRAWINGS, BY YEAR  
1954-JUNE 1965**



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I. Economic Assistance

A. Credits and Grants

New Communist economic aid commitments to less developed countries continued at a relatively high level during the first 6 months of 1965 (see Table 1\*). Such extensions totaled about \$458 million, bringing to almost \$7 billion the aggregate of economic assistance extended by Communist countries since the start of the program in 1954. The countries of Eastern Europe accounted for nearly 80 percent of total Communist aid extended during the first half of 1965 and surpassed the level of extensions by these countries for the whole of 1964.\*\* The USSR may have agreed to contribute as much as \$1 billion to India's Fourth Five Year Plan, which begins in 1966. (This figure is not included in the total Soviet extensions discussed in this report.)

The USSR extended \$62 million in known economic aid during the period, virtually all to Pakistan and Afghanistan. Economic aid extensions by the Chinese Communists totaled \$43 million, including their first credit to Afghanistan, a \$28 million credit for small industries and agricultural projects. Following the pattern of Chinese terms, the credit carries no interest and is to be repaid over 20 years after a 5-year grace period.

East Germany continued to expand the scope of its aid activities in the less developed countries. During the 6-month period it extended \$191 million in aid, compared with \$123 million committed by that country during the previous 11 years. This sharp upsurge in the level of aid undertakings reflects East Germany's determination to use its increased economic capability to exploit more fully the political potential of its aid program. It also is seeking to develop new outlets for machinery and equipment that generally are not marketable in the West. Among the other East European countries, Czechoslovakia, Poland, Hungary, and Bulgaria extended a total of \$162 million in new economic aid credits.

Drawings on Communist economic aid during the period totaled \$238 million, bringing to nearly \$2.4 billion the aggregate of such drawings since 1954. (Total drawings in 1964 amounted to \$529 million.) Outlays under the Soviet program totaled \$179 million during the period. Chinese Communist aid expenditures of approximately \$26 million -- buoyed up largely by \$15 million in cash transfers under long-term credits -- continued the upward trend evidenced since 1960. Drawings on credits extended by Eastern European Communist countries totaled \$33 million.

\* P. 4, below.

\*\* For a summary of specific credits and grants by Communist countries to less developed countries, see Tables 7 through 11, pp. 36 through 103, below.

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B. Technical Assistance

1. Economic Technicians

The number of Communist economic technicians employed in less developed countries rose to more than 16,800 during the first half of 1965 (an increase of about 15 percent above the previous 6-month period), continuing the upward trend which has characterized the program since its inception (see Table 12\*). Increases of varying magnitudes in the number of Communist technical personnel were registered in most recipient countries, primarily in Africa. Although the number of Soviet and East European technicians increased moderately, the number of Chinese personnel employed in recipient countries grew by 75 percent, continuing the rapid increases evident during the past 18 months. Communist China accounted for nearly one-fourth of all Communist technicians in less developed countries during the period under review, about 60 percent of them employed in Africa. The USSR, which in earlier years had supplied about three-fourths of all technical personnel, accounted for only 55 percent. More than 60 percent of all Communist technicians were employed in Afghanistan, Algeria, Guinea, India, Mali, and the UAR.

The largest increases in technical personnel occurred in countries in which the pace of project activity increased during the period. About 1,150 additional Chinese economic technicians and laborers arrived to work in Congo (Brazzaville), Guinea, and Mali, bringing to more than 2,000 the number of such personnel in those three countries. There was a sharp increase in Communist technical assistance activities in Nepal and Yemen and in the UAR, where work proceeded on the main dam and the electric power grid system eventually to be fed by the Aswan High Dam's power stations. Communist technicians were employed in Kuwait for the first time as 20 Soviet personnel arrived to begin implementation of a technical assistance agreement concluded in February 1965.

2. Academic Students and Technical Trainees

Although the USSR in June awarded, amid great fanfare, 208 "Master of Science" degrees to the first graduating class of People's Friendship University, the number of new students arriving for academic study in Communist countries declined sharply during the period, continuing a trend evident since 1962. Only 145 new students enrolled in study programs during the first half of 1965, compared with 250 and 1,400 for the comparable periods in 1964 and 1963, respectively (see Table 14\*\*). Annual enrollment estimates reflect a similar downward trend. From a peak of more than 5,100 arrivals in 1962, the number of new enrollees dropped to about 3,100 in 1963 and to slightly more than 2,000 in 1964.

\* P. 104, below.

\*\* P. 108, below.

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This declining enrollment in academic students is probably a result of a number of factors. There is some indication that academic authorities in the Communist countries are beginning to apply more stringent criteria in the award of scholarships. Foreign student discontent and demonstrations undoubtedly have created some reluctance on the part of some governments to send students to the Communist countries. Statements by leaders of various Eastern European Communist countries indicate that their patience with foreign student disturbances is growing short and that they have little desire to see the program substantially expanded. Soviet authorities too have become increasingly less tolerant of foreign student activities in the USSR and may not be encouraging the program's expansion.

The murder in mid-March of a Ghanaian student at Baku Preparatory School in Azerbaydzhan, which triggered a student "sit in" at the Baku railroad station, culminated in the summary repatriation of 29 Kenyans. Reportedly, foreign students at People's Friendship University and elsewhere boycotted classes in sympathy with the African students at Baku. In early March, Chinese students in Moscow adroitly maneuvered a protest demonstration by students from less developed countries against American policy in Vietnam into an openly anti-Soviet demonstration. This incident and others indicate that the Chinese are prepared to seize upon foreign student discontent and to use it to damage Soviet prestige. Soviet authorities, cognizant of the effect of foreign student disturbances on the Soviet image and piqued by what they consider a lack of gratitude, have in turn tightened up their policies toward foreign students, preventing demonstrations and threatening to expell foreign students who become involved in unauthorized activities.

During the first half of 1965, about 760 nationals from less developed countries undertook technical training programs in Communist countries, bringing the total number who have undertaken this training since 1956 to more than 10,600. As of June 1965, 2,380 of these were still being trained in Communist countries (see Table 13\*).

## II. Military Assistance

### A. Credits and Grants

The only Communist military aid agreements believed to have been signed during the period were between the USSR and Congo (Brazzaville) and between Communist China and Algeria and Uganda. Although the value of these agreements is as yet undetermined, it doubtless is of small magnitude. Despite the low level of new commitments, negotiations continued in high gear. There was much two-way travel of representatives of donors and recipients, with the high point in this activity occurring in early May during the Moscow celebration commemorating the twentieth anniversary of VE Day. Military delegations from Algeria, Ghana, India,

\* P. 106, below.

Indonesia, Mali, Syria, and the UAR met with their Soviet counterparts, during which time military aid probably was discussed. The cumulative total of Communist military aid extended between 1955 and June 1965 now totals about \$4.1 billion (see Table 2).

Table 2

Military Aid Extended by Communist Countries  
to Less Developed Countries of the Free World a/  
September 1955 - June 1965

	Million Current US \$
Estimated minimum value	4,268
Less downpayments	136
<u>Amount of aid</u>	<u>4,132</u>
Credits	2,480
Discounts and grants	1,652

a. For an enumeration of military aid agreements, see Table 15, p. 111, below.

Deliveries of military equipment under earlier agreements also continued at a relatively high level, especially to Cyprus, India, Indonesia, Somalia, and the UAR (see Table 16\*). Various contracts were signed for the delivery of equipment embraced in the Soviet-Egyptian arms accord of November 1964. Some of the equipment to be supplied reportedly has never been provided to any other non-Communist country -- for example, R-class submarines, SU-7 fighter-bombers, and T-55 medium tanks. While ordering new equipment the UAR attempted to postpone all payments due during the years 1964-66 on its existing arms debt. Although the USSR refused to grant a complete moratorium for the period, it did agree to reduce annual repayments by 50 percent during 1965-67.

The period witnessed Soviet implementation of an agreement signed with Cyprus in September 1964 -- with the UAR serving as the channel for the delivery of artillery, tanks, and surface-to-air missile (SAM) equipment -- and a broadening of the Soviet-Indian military aid relationship. Previously concerned with procuring only aircraft and SAM equipment, India contracted for the purchase of Soviet tanks and artillery under a 1964 agreement. In view of current Western unwillingness to provide India with naval equipment, India may also accept Soviet offers of such equipment, negotiations for which were begun in 1964. It is as yet uncertain how Boumedienne's takeover from

\* P. 115, below.

Ben Bella in Algeria in June will affect the Soviet military aid program in that country, but it is worthy of note that Boumedienne has been Algeria's chief negotiator for arms in Moscow and it is unlikely that the types and quantities of arms sought by Algeria will be forthcoming from other sources. It is possible that a technical aid agreement signed by him in May included additional weaponry beyond that covered in the October 1963 agreement.

A unique development occurred in late April, when Kenya rejected a shipload of tanks, armored cars, mortars, and small arms from the USSR, charging that the weaponry was "old, secondhand, and of no use to the modern army of Kenya." Although resulting in some embarrassment to the USSR, the action was motivated as much by internal political differences between President Kenyatta and Vice President Odinga as by the alleged condition of the equipment. The action was followed a month later by Kenyatta's temporary blockage of a Ugandan convoy transiting Kenya en route to Uganda with a cargo of Chinese Communist arms.

During the first half of 1965 there was an increase in the flow of Soviet arms to dissident groups -- particularly in Africa. The bulk of this activity was channeled through intermediaries such as Algeria and the UAR. Other countries involved in this relay were Congo (Brazzaville), Ghana, Sudan, Tanzania, and Uganda.

Maintenance and repair inadequacies continued to limit the effectiveness of Soviet weaponry delivered to less developed countries. Shortages of spares and replacement parts have made much equipment inoperable. In March 1965 the chief of the Afghan Air Defense Command, Lieutenant General Razzaq, reportedly stated that there were only 30 qualified mechanics in the entire air force and that as a result less than 25 percent of the jet aircraft was operational at any given time. A report in January stated that all of Indonesia's MIG-17 and MIG-19 jet aircraft were grounded for lack of spares. Additionally, not enough personnel trained in the maintenance of major equipment are available. Indonesia has tried to meet the maintenance problem by including repair workshops in the October 1964 arms accord, and contracts for these facilities were being completed in May 1965. Iraq, Syria, and the UAR previously had provided for such facilities in their agreements with the USSR, and India -- more sophisticated in such matters -- is contracting for them in conjunction with initial purchases of major equipment. Presumably other countries will improve their repair capabilities but, as more advanced weaponry flows to less sophisticated recipients, the problem will continue to be a vexing one.

## B. Technical Assistance

### 1. Military Technicians

With the continuing deliveries of equipment to military aid recipients, the number of Communist military technicians continued to be



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maintained at a relatively high level. During the period the number of such technicians from Communist countries employed in less developed countries rose to 3,750, an increase of 250 (see Table 17\*). More than 400 Soviet technicians were in India, mainly in connection with the SAM program. With the continued proliferation of advanced weapons systems into the less developed countries, the number of Communist military technicians present in those countries should continue to rise.

## 2. Military Trainees from Less Developed Countries

During the first 6 months of 1965, an additional 1,210 nationals from nine less developed countries enrolled in military programs in Communist countries, primarily in the USSR (see Table 18\*\*). Indonesia and Algeria accounted for about 700 of the new departures. Afghanistan sent 145 trainees, more than half of whom were air force personnel undergoing transitional training on MIG-21 aircraft. Seventeen less developed countries of the Free World have now sent nearly 19,430 military personnel to Communist countries for training, with approximately 3,680 still engaged in such programs at the end of June. Indonesia has accounted for about 45 percent of the total number trained, and five other countries -- the UAR, Afghanistan, Syria, Iraq, and Algeria -- account for about another 45 percent. Since the start of the program in 1955, the USSR has accommodated about 85 percent of the total number trained.

## III. Trade

### A. Value

In 1964, trade turnover between the Communist area, excluding Cuba,\*\*\* and the less developed countries of the Free World amounted to \$3.3 billion,† an increase of 13 percent above the 1963 level, compared

\* P. 118, below.

\*\* P. 119, below.

\*\*\* Cuba's trade with the less developed countries in 1964 totaled \$21 million, about 60 percent above the 1963 level. Morocco, Spain, and the UAR continued to account for the major portion of this trade. For data on Cuba's exports to and imports from individual less developed countries, see Tables 21 and 22, pp. 128 and 130, respectively, below.

† The value figures presented in this section are based primarily on trade statistics as reported by less developed countries themselves and are the only figures currently available for 1964. It should be noted, however, that because of time lags, differences in reporting methods, and coverage of less developed countries, these figures differ considerably from those on the same trade as reported in official Communist sources. One major difference stems from the fact that some less developed countries do not include in their trade returns those imports received under long-term economic credits whereas the Communist countries report as exports all goods furnished on credit, with the result that the value of this trade according to Communist sources exceeds the value reported by less developed countries.

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with a 17-percent gain recorded in 1963 over 1962. The growth of trade in 1964 was due almost entirely to increases in Eastern European and Chinese Communist trade with the less developed countries. Soviet trade with these countries held steady at about the \$1.1 billion level of 1963. As a result, the Soviet share of Communist trade with the less developed countries fell to 34 percent compared with 37 percent in 1963. Within the Communist area the countries of Eastern Europe continued to be the most important trading partners for less developed countries, accounting for 45 percent of total Communist trade with less developed countries. The largest percentage increase in trade between the Communist and less developed countries was recorded by Communist China, whose trade with these countries amounted to \$680 million -- an increase of 40 percent above that of 1963.\*

The failure of Soviet trade with the less developed countries to reflect any noticeable increase was due primarily to a leveling off of imports by the USSR, resulting largely from a reduction of 91,400 tons\*\* (roughly \$50 million) in its purchases of Malaysian rubber -- a reduction not compensated for by increased Soviet purchases of rubber elsewhere in the less developed world. Soviet exports to these countries in 1964 increased by only 6 percent, compared with a 15-percent gain in 1963. This slackening in the growth of Soviet exports was due primarily to absolute declines in exports to Brazil, Spain, and Sudan. The USSR's exports to its major markets in the less developed areas -- Afghanistan, India, and the UAR -- however, continued to expand.

The share of the less developed countries in total Communist trade in 1964 was 8 percent, the same share as in 1963, whereas the Communist area's share in the aggregate trade of the less developed countries remained at 5 percent, the same share as in previous years. In spite of these relatively low ratios, the Communist area continued to occupy a preponderant share of the trade of certain less developed countries. The Communist area supplied between one-fourth and one-half of the imports of Afghanistan, Cambodia, Guinea, and Mali and absorbed between one-fifth and two-fifths of the exports of Afghanistan, Greece, Guinea, Mali, Syria, and the UAR and the nonpetroleum exports of Iran and Iraq. Moreover, Communist countries continued to purchase sizable portions of those products which are the major earners of convertible currency for some less developed countries. They purchased 15 percent of Ghana's total exports of cocoa beans in 1964, 56 percent of the UAR's exports of cotton during the period 1 August 1964 through 21 June 1965, and 65 percent of Syria's exports of cotton during the 1964/65 marketing year.\*\*\*

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\* For detailed data on Communist exports to and imports from individual less developed countries, see Tables 19 and 20, pp. 120 and 124, respectively, below.

\*\* Tonnages are given in metric tons throughout this report.

\*\*\* For data on the Communist share of the total exports and imports of selected less developed countries, see Table 23, p. 132, below.

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## B. Direction

Communist trade with the less developed countries continued to be concentrated on a relatively small number of partners: India and the UAR accounted for 35 percent of Soviet and Eastern European trade with the less developed countries in 1964. For the USSR alone, this share was much higher -- almost 43 percent. This concentration reflects, in part, a trade momentum generated by deliveries under Communist long-term economic credits and repayments of these and military credits in the form of commodities. Communist China's trade continued to be conducted mainly with its Asian neighbors -- Burma, Ceylon, Malaysia, and Indonesia -- and the UAR. In addition, Argentina, because of large grain sales to Communist China, became a major trading partner in 1964, accounting for almost one-third of Chinese Communist imports from less developed countries.

By geographic area, Asia continued to account for the largest share -- about 41 percent -- of Communist trade with the less developed countries. Communist trade with this area amounted to almost \$1.4 billion, an increase of 16 percent above the 1963 level. Exports to the area rose by 17 percent, largely because of increased deliveries to Pakistan, India, Ceylon, and Indonesia. Increased purchases from the latter three countries more than offset the nearly 40-percent decline in Malaysian rubber purchases and accounted for most of the 15-percent increase recorded in Communist imports from the area.

Communist trade with the less developed countries of the Middle East increased by 7 percent to nearly \$990 million, accounting for 30 percent of Communist trade with the less developed countries. Exports to the Middle East rose by 9 percent, reflecting primarily increased deliveries to the UAR, Iran, and Syria. The latter two countries plus Greece also contributed most heavily to the 6-percent increase in Communist imports from the Middle East.

The share of Latin America in trade between the Communist and less developed areas rose to 13 percent in 1964, compared with 10 percent in 1963, and amounted to \$417 million. The increase stemmed primarily from a \$119 million rise in Communist imports from the area, primarily Chinese Communist purchases of more than 1 million tons of grain, mainly wheat, from Argentina. Exports held steady at \$118 million, about the same level as in 1963. For the first time in several years, trade with Brazil, the other major Latin American trading partner for the Communist area, declined in spite of resumed Communist trade promotional activities in Brazil, greatly increased deliveries of Soviet petroleum during the last quarter of 1964, and the government's policy of encouraging imports from Communist countries in order to liquidate the favorable balance which Brazil holds with these countries.

Communist trade with Africa increased by 9 percent to the level of \$416 million in 1964, but Africa's share in Communist trade with

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less developed areas remained at 13 percent. Communist imports from Africa rose by only 4 percent, primarily because of smaller purchases from Sudan, Ghana, and Guinea. The decline in imports from Sudan was due almost entirely to a drop in Communist purchases of Sudanese long-staple cotton. Communist purchases of cocoa beans from Ghana also declined in 1964, totaling roughly 56,000 tons, compared with 72,000 tons in 1963, but these purchases are expected to rise again in 1965 to an estimated 140,000 to 150,000 tons. Although imports from Ghana declined, it should be noted that Communist exports to this country increased by almost 50 percent in 1964 as a result of the Ghanaian policy of expanding imports from the Communist area by means of import licensing controls. This increase in Communist exports to Ghana accounted for most of the 14-percent gain noted in Communist exports to Africa.

Trade between the Communist area and the less developed countries of Europe -- Iceland, Portugal, and Spain -- remained small, amounting to \$102 million, a decline of 18 percent from 1963. In terms of total Communist trade with all less developed countries, these European countries accounted for only 3 percent.

#### IV. Area Reviews

##### A. Africa

The Communist countries created an impression of great activity in Algeria during the period, but there was little in the way of concrete progress in the various existing economic aid programs and no new credits were extended. Most of the activity was, in fact, a series of visits and surveys which were publicized widely in the Algerian press and the arrival of numerous "volunteers" to participate in rural rehabilitation programs. The only new contract signed was for delivery of radio equipment under an existing Czechoslovak credit; the only project completed during the period was a Soviet-built training school. In March, at least 300 Algerian military personnel departed for military training in the USSR, bringing to about 1,000 the number of Algerians who have received such training since February 1963.

The effect of the ouster of Ben Bella in June still is not clear, but it apparently was a setback for the Communist countries, particularly the USSR. The new Algerian regime reportedly notified the USSR that Algeria would no longer serve as a forum for Soviet propaganda. The USSR had established a sizable presence in Algeria and considered Ben Bella as a leading "revolutionary democrat" and defender of Soviet interests in Afro-Asian councils. As a result of the coup the Afro-Asian Conference (Bandung II) was postponed despite concerted Chinese pressure to have the Conference held as originally scheduled, which was a reversal for Communist China. The Chinese, however, did recognize the Boumedienne regime immediately. The USSR and the East European countries adopted a cautious attitude, refraining from comment on the new regime while apparently welcoming the postponement of the Afro-Asian Conference.

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The only significant development between Morocco and the Communist countries was the signing of an agreement with Cuba in February for the purchase of 565,000 tons of sugar, to be delivered in 1966 and 1967. Payment for deliveries in 1966 will be 35 percent in convertible currency and 65 percent by clearing account, while 75 percent of the 1967 deliveries will be repaid through a clearing account. The Moroccan Government maintains that it agreed to these terms because it could find none better elsewhere -- particularly in the light of Morocco's acute shortage of foreign exchange -- and because of Morocco's need for a guaranteed source of supply. Morocco also renewed 1-year trade agreements with Bulgaria, Hungary, and the USSR during the period under review.

The October 1964 coup which brought down the Abboud regime in Sudan presented the Communist countries with a prime opportunity for furthering their policies in Africa. The first transitional government, heavily influenced by domestic Communists, appeared ready to support radical movements in Africa and, for a time, permitted the Communist arms shipments to be transshipped across Sudan to rebel groups in Congo (Leopoldville). The subsequent change in government in February 1965, however, altered this policy to one of cautious nonalignment.

During the first half of 1965, Czechoslovakia extended a credit of \$10 million to Sudan. The credit will be used to purchase machinery and equipment and is to be repaid over a period of 8 years at 3 percent interest. Soviet aid activities under the 1961 agreement continued, mostly on small agricultural processing plants, and the Sudan-Soviet trade agreement was renewed for an additional 3 years. The USSR continued its efforts to extend Aeroflot service to Brazzaville and East Africa via Khartoum, but the Sudanese Government has avoided action on the request, authorizing only ad hoc charter flights.

Ghana continued its leftward drift during the period, more as a result of the predilections of its leaders than of any special Communist blandishments. The Ghanaian authorities continued to exert strong pressures to divert additional trade toward the Communist countries in the framework of bilateral agreements, and appeared to be having some success. The Ghanaian economy has been faltering, however, and a massive Communist attempt to rescue it appears unlikely.

There were no new Communist aid extensions to Ghana during the period, but nearly \$7 million under Soviet and Czechoslovak credits was obligated for imports of machinery and equipment. During the visit of an IMF team to Ghana in May, the Finance Minister indicated that Ghana would seek extensions of the repayment period for suppliers' credits from Communist countries. Evidence of this was the signing in May of an agreement under which Poland extended from 5 to 8 years the repayment period of a 1962 credit to construct a sugar refinery and agreed to accept payment in Ghanaian pounds instead of sterling.

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Work proceeded slowly at the military airbase at Tamale which is being built for the Ghana Air Force with Soviet assistance. There were reports that Ghana was preparing to purchase military equipment and arms from the USSR to equip two brigades of infantry. The Czechoslovak project to build a small-arms factory in Tema, the contract for which was signed in September 1964, remained in the survey stage.

Protocols covering trade between Ghana and the Communist countries in 1965 reflected a determination by both sides to expand trade significantly. Purchases of cocoa by Communist countries increased markedly. Under Ghana's rigid import licensing system, importers from Communist countries continued to receive preference in the issuance of licenses. One aspect of this trend in trade was a bilateral agreement with the USSR to import 1 million tons of Soviet crude oil.

Guinea's prolonged economic crisis overshadowed all other developments in its foreign and domestic affairs during the first half of 1965, including relations with the Communist states. While foreign exchange and consumer goods shortages continued to worsen, development projects limped along feebly, providing scant hope of bringing Guinean trade into balance. Chinese Communist construction activity continued to increase, and about 800 Chinese economic technicians were employed at the site of the Kinkon Dam and at a textile mill at Macenta.

A Guinean delegation which visited Eastern Europe in January and February apparently succeeded in persuading Czechoslovakia and Poland to follow the USSR's lead in granting Guinea a moratorium of from 3 to 5 years on its debt repayments, thereby formally recognizing Guinea's inability to meet its obligations. All outstanding Soviet debts -- estimated at some \$30 million -- are to be consolidated, repayment suspended for 3 years, and payments then stretched out over 15 years starting in 1968. A protocol to Guinea's trade agreement with Czechoslovakia called for an increase in volume of trade, involving an exchange of Guinean agricultural and mineral products for Czechoslovak agricultural machinery. Similar agreements were concluded with Bulgaria, Poland, and the USSR.

The continued expansion of Chinese Communist aid and influence in Mali aroused considerable controversy between Mali and its more conservative neighbors. The latter, members of the Franc Zone and its Western African Bank, succeeded in prejudicing the outcome of Franco-Malian financial negotiations by pressing France not to make concessions to Mali without a substantial (and essentially political) quid pro quo. Three months of fruitless talks with the French on the problems of their malfunctioning economy apparently drove home to the Malians the magnitude of their problems and the inadequacy of the palliatives proffered by Communist sources. Thus by the end of June the Malians, although pleased with the Chinese aid performance, appeared to be shying away from overidentification with Peiping. In this period the USSR stepped up its activities under previously signed

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aid agreements, perhaps partly in reaction to the obvious increase in Chinese Communist influence in Bamako.

In January the USSR contracted for the construction of a cement plant under a previously extended credit, and \$7.8 million was obligated under a Chinese credit for the construction of a textile complex at Segou. The continued influx of Chinese technicians brought to more than 1,000 the number of Chinese personnel employed in Mali. In March, ceremonies marked the transfer to the Malians of two Soviet projects, the National School of Public Administration and the School of Medical Assistants. The Malians attempted unsuccessfully to modify the terms of their commercial agreement with the USSR to substitute peanut oil for some of the promised supplies of peanuts.

In January 1965, after several months' negotiations over the terms of the \$4 million interest-free credit promised in September 1964 as inducement for diplomatic recognition, Communist China finally agreed to the Central African Republic's bid for a half-cash, half-commodities breakdown. Half of the \$2 million cash portion was disbursed, and the other half was promised for December 1965. The commodity portion is to be spread over 5 years. In return, the Republic accepted the credentials of the Chinese Communist Ambassador simultaneously with the conclusion of the negotiations. In March a scientific and cultural cooperation agreement was concluded with the USSR under which Central African Republic students will receive Soviet scholarships, and tourism will be promoted between the two countries.

No new Communist economic aid credits were provided to Congo (Brazzaville) during the period under review. Protocols implementing projects under credits extended in 1964 were signed with Communist China and the USSR. The latter credit will be used principally for the construction of a 120-room hotel in Brazzaville, for a multipurpose project, and for geological prospecting. Nearly 200 Chinese Communist technicians arrived in Congo (Brazzaville) and were engaged primarily in demonstrating rice-growing techniques.

Since the beginning of the year the USSR has delivered four or five arms shipments, including artillery and armored vehicles, and has provided some 30 military instructors. About 160 Congolese have been sent to the USSR for military training. The Chinese Communists have sent at least two shipments of arms and about 30 advisers to provide instruction to selected Congolese military personnel in army camps around Brazzaville.

In Senegal, contracts were signed in March for the implementation of the program to assist Senegal's fishing (chiefly tuna) industry under a \$6.7 million credit extended in November 1964. The agreement provides for Soviet assistance in the construction of a processing and canning plant and for the sale of 16 boats with repayments to be made in the products of the cannery.

SECRET

Sierra Leone's first efforts to give effect to Prime Minister Albert Margai's often repeated willingness to accept economic aid "from any source" took place in April when a delegation headed by the Minister of Trade and Industry visited Czechoslovakia and the USSR. The two countries apparently concluded cultural, scientific, and technical cooperation and trade agreements. The Sierra Leonean Government subsequently invited applications for 30 academic scholarships offered by the USSR. A trade agreement was signed with Czechoslovakia calling for the exchange of Sierra Leonean agricultural products for Czechoslovak engineering equipment.

A moderate expansion of Communist aid activities in Ethiopia was evidenced during the period. Cultural, economic, and civil air agreements were concluded with Bulgaria, including a \$5 million credit primarily for the establishment of joint Bulgarian-Ethiopian agricultural and food-processing enterprises. Bulgaria also will assist in the establishment of a Bulgarian-owned film industry. The USSR continued construction of an oil refinery at Assab and negotiated an agreement for construction of a jet airfield near Assab. Czechoslovakia opened a rubber shoe factory, and a visiting Hungarian delegation signed technical, scientific, civil air, and cultural agreements. Communist China reportedly offered Ethiopia \$5 million in direct budgetary support and \$15 million in non-interest-carrying credits in return for diplomatic recognition in January, but no such commitment by either country is known to have materialized.

The USSR continued to expand its presence in Somalia during the period under review. Most Soviet projects were still under construction, especially the deepwater port at Berbera. The 50-kw transmitter and building for Radio Mogadiscio were completed and turned over to Somalia. During early 1965 the USSR delivered the bulk of the \$35 million in military equipment promised in November 1963. Deliveries included 3 MIG-15's, 60 tanks, 130 armored personnel carriers, 212 artillery pieces, 4 antiaircraft radar units, more than 200 trucks, and related equipment and ammunition.

The Chinese Communists appeared to be making little progress with their aid program in the country. The financially hard-pressed Somalis were disappointed by the Chinese failure to provide further direct budgetary support and turned down a Chinese offer to build a highway with "thousands of coolie laborers." They agreed, however, to have the Chinese construct a theater.

There was increasing Somali dissatisfaction with the quality of some types of Soviet equipment received under the aid program, especially concerning the high rate of breakdowns of trucks and tractors and their high cost of operation. The supply of spare parts often is inadequate, and inoperative and junked vehicles are to be found throughout the country.

SECRET



Communist activity continued at a significant level in East Africa over the past 6 months, especially in Tanzania. President Julius Nyerere visited Peiping in February, and Chinese Communist Prime Minister Chou En-lai returned the visit in June. Communist China was the most active of the Communist countries in military aid (particularly to "liberation" groups) and economic assistance, and appeared to be steadily expanding its influence in Tanzania. Chinese relations with Kenya and Uganda were less successful during the period under review. President Jomo Kenyatta refused to meet with Chou during the latter's East African visit, and the Kenyans denounced Chou's "Africa is ripe for revolution" thesis. Uganda also refused to receive Chou and declined to accept Chinese technicians to train the Ugandan army in the use of recently delivered Chinese arms. The USSR suffered some reverses: the Tanzanians did not renew the contract of a Soviet military mission and rejected the terms of a \$20 million economic credit, and the Kenyans, reacting to the subversive activities of Vice President Odinga, turned down a Soviet arms shipment ostensibly because the weapons were too old for the "modern" Kenyan army. These reverses indicate the problem that both Peiping and Moscow will continue to face as they seek to pursue their programs in Africa.

Communist China began to implement some of the projects under the 1964 aid agreements with Tanzania, initiating work on such projects in Tanganyika as a broadcasting station, a textile mill, state farms, and a farm implements factory. In addition, the Chinese disbursed a cash grant to Zanzibar, began implementing agricultural projects on that island, and delivered a sizable quantity of arms. Communist China is supposedly about to undertake a survey of the proposed Tanzanian-Zambian rail link as a result of reported discussions on the project with the Tanzanians earlier this year. It is not yet clear, however, whether the Chinese have actually committed themselves to more than a survey.

In February, Peiping and Tanzania signed a trade agreement and protocol providing for Chinese purchases of 2 million pounds of tobacco, 500,000 tons of copra, and 80,000 bales of cotton. Both Communist China and the USSR purchased substantial quantities of Zanzibar's principal commodity, cloves, as well as copra. The East Germans have been furnishing sugar to the islands and the Chinese increasing quantities of rice.

Kenya continued to draw on a Chinese cash grant of \$2.8 million, and construction was initiated on a Soviet-financed hospital. Soviet and Czechoslovak technicians continued to provide technical assistance for the development of news media in Kenya, constituting a significant penetration of a key sector. Uganda signed a \$3 million grant and an economic and technical cooperation agreement with Communist China which includes an interest-free credit of \$12 million. Uganda still had not drawn on a Soviet credit of \$15.6 million extended last December, and in general none of the aid programs envisaged under credit

agreements with Communist countries reached the implementation stage. Soviet advisers were assigned to the Ministry of Commerce and Industry and the Economic Planning Ministry.

B. Asia

Soviet economic aid activities in Afghanistan continued at a high level during the period, including new credits and an adjustment of debt payment schedules that served to deepen Afghanistan's economic dependence on the USSR. In an effort to ease Afghanistan's current foreign exchange and budgetary problems, the USSR discussed deferment for 27 years of repayment of \$16.7 million in debts due in 1965-67; extended a \$16.7 million long-term credit to cover the maintenance costs of the Salang Pass road and tunnel and the Kabul grain silo and the construction of three bridges; promised to meet all costs for the Soviet teaching staff at the Soviet-built polytechnic school; and agreed to accept natural gas from the Shibargan gasfield as payment for developing the field and constructing a pipeline to the USSR.

The USSR and Afghanistan also signed an \$11.1 million commodity credit agreement to generate local currency for Soviet aid projects. Delivery under the credit will be made over a period of 2 years and repayment -- in the form of cotton, wool, and other agricultural products -- over 10 years at 2 percent interest. A protocol signed to the basic trade and payments agreement of 1950 was significant in that for the third consecutive year Afghanistan resisted Soviet efforts to include in the protocol Afghanistan's major foreign exchange earners, karakul skins and wool carpets.

The Chinese Communist credit offer of November 1964, which had been accepted in principle, was formally signed at the end of March. The \$28 million credit provides for a 10-year grace period, no interest, and 20 years for repayment. Further discussions are to be held to determine the specific projects to be financed under the credit.

Afghan-Soviet military ties were also strengthened when an \$80 million protocol was signed in January to an agreement negotiated in July 1964. The USSR will deliver 24 MIG-21's, 60 T-54A tanks, and fire-fighting equipment and spares at a 75 percent discount with the \$20 million balance to be paid over 15 years at 2 percent interest starting in 1968. The 12 SA-2 SAM's delivered in July 1964 remained in storage, and there was no indication of activity designed to make the SAM's operational.

During the first half of 1965, Burma continued to follow a policy of strict neutrality, concentrating primarily on internal problems. Frequent visits by high-ranking Chinese Communists, including three by Chou En-lai, failed to elicit from Ne Win a more pro-Peiping stance. Chinese aid activities were confined mainly to the start of construction at a Chinese Communist industrial project and a modest

increase in the number of Chinese technicians. In March 1965 a protocol was signed to the Chinese \$84 million credit, which provides that Burma cover the local costs of Chinese projects in exchange for funding of the Burmese trade deficit of \$12.6 million and the shipment of certain commodities to Burma.

The only new credit extended during the period was \$10 million from Poland, a credit first offered in 1963. That this credit, which is intended to finance imports of complete equipment for industrial plants, is the first new aid accepted from Communist countries since March 1963 is partially indicative of the low level of Burmese interest in foreign assistance. The terms of the agreement reportedly require a 10-percent downpayment on signature of contract, 10 percent on delivery of equipment, and the balance repayable over 8 years at 2.5 percent interest.

Academic assistance from Communist countries to Burma continued to grow in importance and to displace traditional Western training for future Burmese leaders. At present, nearly 200 Burmese students are being trained in Communist countries. There is every reason to believe that the number will continue to increase, for the Burmese leadership feels that such education is most compatible with the evolving Burmese political and economic order.

In Cambodia, Prince Sihanouk continued to praise and cooperate with Communist China. His continued hostility to the West culminated in his breaking relations with the United States in May. There were no new extensions of Communist military or economic aid during the period, but an agreement was signed in June providing for a small number of Chinese Communist military technicians to be sent to Cambodia to install a small arms repair workshop and activity on Chinese economic aid projects increased. In March a cultural and scientific cooperation agreement was signed with Communist China which reportedly provides for the employment of 100 science instructors for technical schools in Cambodia and for scholarships for Cambodian students.

Conditions in Ceylon during the first half of 1965 were highlighted by a deteriorating economic situation and a change in government. Following the defeat of the Bandaranike government, opportunities for an immediate expansion of Communist influence within the country diminished. Whereas the Bandaranike government actively courted the local Communist Party and sought support from Communist countries for its foreign policies, the election of Dudley Senanayake has resulted in closer ties with Western countries. The Senanayake government is actively seeking Western economic assistance and appears willing to attempt to meet the conditions required for such aid. These conditions include the imposition of economic reforms and the settlement of the oil compensation dispute. During the Bandaranike regime, deteriorating economic conditions, created in part by increasing the already heavy government welfare expenditures, led to an

expansion of the public sector, and Communist and Trotskyite leaders became more influential in formulating economic policy. The dispute with Western oil companies gave the USSR an opportunity to increase its trade with Ceylon substantially, and during 1964 the USSR provided about 70 percent of Ceylon's requirements for petroleum products. With the apparent settlement of the dispute, the Western oil companies are expected to make strong efforts to regain their Ceylonese markets.

During the preelection period the Chinese Communists provided financial support to Madam Bandaranaike's election campaign -- support which proved to be a significant election issue and highlighted what the conservatives called the growing external Communist threat to national independence.

In February, prior to the change in government, Ceylon accepted a \$42 million credit from East Germany. The credit -- the largest single Communist credit to Ceylon -- provides for the purchase of goods over a period of 5 years and is to be repaid in 10 years at 2.5 percent interest.

India's relations with the Communist countries were highlighted by Prime Minister Shastri's visit to Moscow in May to secure a sizable amount of Soviet aid for India's Fourth Five Year Plan. In addition to formalizing the Soviet agreement to provide \$211 million to finance the construction of the Bokaro steel mill, Shastri apparently received a Soviet commitment to assist in the construction of a variety of heavy industrial projects and further development of Indian mineral resources. Although no official announcement concerning the magnitude of such aid has been forthcoming, it is known that India had asked for about \$1,480 million, including \$210 million in nonproject assistance. A number of reports have indicated a Soviet willingness to provide as much as \$1 billion in economic aid for India's next 5-year plan.

The only known aid agreement concluded during the period was a \$22 million Polish credit extended in January for the construction of electric powerplants. Discussions also were in progress with Poland concerning aid for the construction of a zinc smelter. A 12-man Hungarian delegation continued to investigate the possible construction of an aluminum plant, and Rumania offered to supply equipment under economic credits for the petrochemical industry.

In an effort to ease its foreign exchange difficulties, India signed an agreement in March with the USSR for 800,000 tons of petroleum products to be delivered in 1965-66, an amount supplemental to 1.5 million tons to be delivered in 1965-67 under an earlier agreement. This supplemental tonnage has created problems because the government-owned Indian Oil Company does not have adequate storage, transport, and distribution facilities to handle these supplies. The foreign-controlled companies refused to permit their facilities to be used for the Soviet products. On 3 May these firms were informed that no foreign exchange would be made available for them to import certain POL

products (the type of products coming from the USSR) for 6 months. In early June the Indian Government announced that it was assuming power under the Defense of India Act to seize and control the distribution of petroleum products to overcome hoarding and shortages. This authority, however, had not been implemented during the period.

Indian-Soviet military relations also continued to expand, and if all negotiations conducted during the period result in agreements, the USSR will be providing military aid to all three Indian services. India, originally receiving aid only for the Indian Air Force -- SAM's, MIG's, and air-to-air rockets -- contracted to purchase equipment for the ground forces under a 1964 arms credit and is now reportedly considering procurement of materiel for the Navy, especially Soviet submarines. Negotiations concerning details of the agreement to construct the three MIG plants in India continued during the period.

Indonesia swung even further to the left during the first 6 months of 1965, both internally and externally. A loose coalition of anti-Communist forces was outlawed by Sukarno and was followed by the banning of the anti-PKI Murba party. In foreign affairs, Indonesia continued to show a growing identity of interest with Communist China. The government's increasingly anti-Western stance resulted in the almost complete takeover of the remaining Western economic interests in Indonesia, some of which were placed under full Indonesian control while others were subjected to a milder form of supervision that stopped short of expropriation.

As Indonesia has gravitated more toward the Asian Communist countries, its relations with the USSR cooled somewhat. The Chinese have taken advantage of this situation to further their interests in Indonesia, and plans were made for the utilization of the \$50 million credit extended by China in late 1964; \$10 million of this credit apparently has been drawn in convertible currency, and the remainder will be in Chinese products. The Chinese also increased substantially their purchases of Indonesian rubber, helping to alleviate the marketing problems caused by the embargo on trade with Malaysia. The Chinese also continued to provide political support to Indonesia in connection with the Afro-Asian conferences and promised to give financial assistance in the building of a conference hall for a forthcoming Conference of the Newly Emerging Forces to be held in Indonesia.

There were no new extensions of Soviet military aid in the first half of 1965, and only small economic credits of \$3.3 million for the purchase of 850 Soviet trucks and \$3 million for Czechoslovak trucks. An Indonesian military mission, subsequently joined by Minister of Defense Nasution, traveled to Moscow at the end of April to expedite the delivery of arms under the \$200 million military agreement of October 1964. Contracts under the agreement reportedly include 6 MIG-21 all-weather jet fighters, 10 An-12 transports, P-30 radar, and airfield radio equipment for the Air Force; coastal defense rocket

complexes and heavy antiaircraft guns for the Navy; and artillery, armored vehicles, and light infantry weapons for the Army. In addition to equipment and spares, the agreement provides \$35 million for infrastructure and \$20 million for training. Equipment delivered under earlier agreements included two Riga-class frigates, one Skoryy-class destroyer, and two Mi-6 helicopters.

Indonesia signed a \$7 million contract for the purchase of trucks and buses from East Germany within the framework of credits extended in 1964. Long-term credit extensions by East Germany since January 1964 total at least \$42 million. In addition, the East Germans have agreed to participate in 10 production-sharing ventures valued at approximately \$23 million. This high level of East German economic aid activity appears to be part of a concerted campaign to win diplomatic recognition for the East German regime.

In Nepal, new developments in economic relations with Communist countries during the first half of 1965 were centered on assistance in the construction of the long-planned 540-mile East-West highway. India agreed to construct the 100-mile sector of this strategic highway in eastern Nepal, after the Chinese withdrew from the project at Nepal's request, as well as an additional 300 miles of the road. A 75-mile sector is being built by the USSR. The Chinese also withdrew from the Kamala irrigation project at Nepal's request, and the Nepalese have assured the Indians that China will not be permitted to undertake projects in the Nepalese southern foothills or plains in the future. The Chinese have agreed to reallocate the sums previously committed to these projects to other activity, but no projects were agreed upon.

Pakistan's relations with both Communist China and the USSR continued to expand, largely because of frustrations over the failure to make progress toward a Kashmir settlement and Pakistani concern over Western arms aid to India. The \$60 million credit offer from China which had been accepted in principle was formally signed in February. During the visit of President Ayub to the USSR in April it was announced that new aid and trade agreements had been signed. A Soviet credit of \$30 million is to be repaid over 10 years at 2.5 percent interest, with a 10-year grace period. The 3-year trade agreement calls for doubling of trade to about \$24 million in 1965.

#### C. Latin America

The economic involvement of Communist countries in Latin America continued to be limited largely to trade activities. Practically all of the Communist countries, including Communist China, have been active during this period in sending missions to a number of Latin American countries in an attempt to increase trade and, in some cases, to establish permanent trade missions.

Argentina's agreements with Communist countries followed the general upward trend started in 1964. Communist China, for example,

after two large grain purchases from Argentina in 1964, made its largest purchase from that country in April -- 1 million tons of wheat to be paid for in pounds sterling. Shipments started in late spring and were expected to continue through August. The USSR concluded a barter agreement with Argentina calling for the exchange of 1 million tons of Argentine wheat for 750,000 tons of Soviet fuel oil. The USSR also offered a \$100 million credit to Argentina to cover capital goods imports for the latter's economic development plan. This credit apparently would replace the \$100 million credit agreement of October 1958 on which only \$33 million had been drawn. Discussions concerning the credit offer still were in progress at the end of June.

Brazil's economic policy toward the USSR and other Communist countries continued to reflect an attempt to promote trade with all countries. Petroleum deliveries from the USSR continued at a relatively high level. A contract was signed with Poland, within the framework of the formal trade agreement between the two countries, for 150,000 tons of rails and other railroad equipment valued at \$20 million. Deliveries will be made over a 3-year period. In return, Poland reportedly plans to purchase Brazilian commodities, presumably coffee and iron ore.

A pending purchase from East Germany, now in the final stages of negotiation, calls for about 75 East German locomotives to be delivered in the coming 12 months to Sao Paulo State. Although not the lowest bid, the 10-year financing arrangements offered by the East Germans caused the Brazilians to decide that their bid was the most suitable. The decision to accept the East German proposal was approved by Minister of Planning and Economic Coordination Roberto Campos, who cited the possibility of opening a market for the sale of Brazilian-manufactured products in East Germany as one of his reasons for accepting the proposal. The East Germans have offered in this connection to purchase \$4 million of manufactured goods from Brazil. An agreement transacted early in 1965 within the terms of a formal trade pact called for the purchase of 16 oil drilling rigs from Rumania. The rigs, to be used in Sergipe and Bahia, will be accompanied by 20 Rumanian technicians. Trade with Communist China has been nonexistent during this period as a result of the cancellation last year of a bilateral clearing agreement with China. The nine-man Chinese commercial delegation which visited Brazil during 1964 was found guilty of espionage by a military court and expelled from the country in April.

The administration of President Eduardo Frei has taken the position that Chile will not be politically or commercially isolated from Communist countries. Since the Free World demand for Chile's minerals remains strong, however, that country has refused Communist offers to negotiate barter agreements and is holding out for hard currency purchases. This has tended to discourage all potential Communist purchasers, except for the Chinese Communists who appear willing to use their convertible currency for mineral purchases. During the period the Chinese purchased 40,000 tons of sodium nitrate and 7,500 tons of refined copper. Payments for these products were

to be made in pounds sterling at or above the world market price. These purchases came rapidly on the heels of the establishment of the first Chinese Communist permanent trade mission in Chile on 9 April. Communist China previously maintained a commercial information office at Santiago without permanent status.

In Colombia, East Germany succeeded in concluding several commercial agreements. A Colombian association of manufacturers concluded an agreement for a \$1 million credit to finance imports of East German machinery. It is anticipated that the Colombian Government will approve the credit, which is to be repaid over a 5-year period at 6.5 percent interest. Czechoslovakia, on the other hand, canceled its trade agreement with Colombia, a bilateral agreement which had been in force since 1957. The Colombians are reportedly pleased by this, as they claim to have assurances from the Czechoslovaks that the latter will continue to buy coffee, paying for it with foreign exchange. Six other Communist countries retain barter agreements, largely inactive, with Colombia.

Ecuador authorized barter trade with Communist countries and was to send a trade mission to the USSR and Eastern Europe to negotiate trade agreements. Interest in such agreements has been stimulated by Ecuador's effort to expand markets for its banana crop, as banana exports have lagged in 1965. The military junta authorized these agreements on 29 January and subsequently announced that a delegation composed of Ecuadoran diplomats will travel in Eastern Europe to conclude formal agreements. The official composition of the delegation, originally planned to be made up of industrialists and businessmen, suggests that Ecuador is also interested in negotiating the reestablishment of diplomatic relations with one or several Communist countries.

#### D. Middle East

The USSR continued to exploit communal tensions in Cyprus in an effort to erode the Western position on the island and strengthen further the position of indigenous Communist elements on the island. Deliveries of Soviet military equipment, primarily through the UAR, were begun during the period and included motor torpedo boats, trucks, armored personnel carriers, T-34 tanks, artillery, and SAM-associated equipment without missiles.

Cyprus also continued to expand trade relations with the Communist countries. Annual trade protocols were signed with seven countries, including a 3-year agreement with the USSR. East Germany purchased a sizable share of the Cypriot potato crop, a transaction that normally would have been carried out with the UK. Poland completed its renovation contract for the port of Famagusta.

The trend in increasing trade between Greece and Communist countries continued into the first half of 1965 through the signing of trade protocols calling for increased levels of trade. There were no major developments, however, but several of the Eastern European countries



continued to indicate an interest in some form of equity participation in Greek industrial development projects, although none of the negotiations in progress during the period resulted in any agreements.

In Kuwait, efforts to appease domestic pro-Nasser groups, and the UAR itself, through modifications of its orientation to the West were reflected in an increasing willingness to deal with the USSR. In February the economic and technical cooperation agreement that had been accepted in principle last year was formally signed, and 20 Soviet technicians arrived to begin implementation of the agreement. The USSR has expressed interest in aiding the construction of the Shatt-al-Arab water pipeline, in carrying out water exploration surveys, and in developing Kuwait's fishing industry, projects of prime concern to the Kuwaitis.

The European Communist countries continued their efforts to expand economic relations with Iran. Hungary extended a \$10 million economic aid credit to Iran during the period. The credit carries a 2.5 percent interest rate for about 9 years and will be utilized for the import of capital goods. In June the Shah visited the USSR amid indications of Soviet willingness to undertake construction of an integrated steel mill in Iran. Soviet technicians are known to have been in Iran to survey possible sites for such a plant, but no formal offer is known to have been made. A new water route to Europe by way of the Caspian Sea and the Don-Volga Canal was opened, implementing the Soviet-Iranian Transit Trade Agreement of November 1963. Certain Iranian officials and private businessmen have urged increased economic relations with the USSR and have shown a greater willingness to consider Soviet commercial proposals.

The government of Iraq showed renewed interest in Communist economic aid during the first half of 1965 as assistance was sought in financing projects under a new Iraqi Five Year Plan. On 17 March a protocol to the 1959 Soviet aid agreement was signed, under which the USSR will finance the construction of a dam on the Euphrates River and a tractor assembly plant. The total cost of the dam (estimated at possibly more than \$100 million) indicates that the unused portion of the Soviet credit probably was committed and that further credit extensions may be in the offing to cover any additional Soviet projects. The 1960 Czechoslovak credit of \$33.6 million has never been used and was allowed to expire but the Czechoslovaks have indicated a willingness to renew their defunct aid agreement and participate in the Iraqi development plan.

Syria was the recipient of about \$30 million in new aid credits during the period. In view of Syrian nationalization measures and the growing influence of the public sector, the scope of Communist participation in Syrian economic development is likely to continue to expand. Poland extended a credit of \$26.2 million for as yet unspecified projects and East Germany \$4 million, partly for dredging certain portions of the Euphrates River. Work continued on Soviet-sponsored projects, such as the Qamishli-Latakia railroad and petroleum explorations, and construction was begun on the new Czechoslovak-financed sugar refinery in the

Ghab. The long-delayed nitrogen fertilizer plant financed by the USSR is scheduled to go under construction in late 1965, now with Czechoslovak and Italian participation. Civil air agreements were concluded with Hungary and East Germany. Air service on a weekly basis between Damascus and Budapest was inaugurated in May. An agreement on a Damascus - East Berlin service was signed in June, and it is expected that service will start in August.

Frustrations over Cyprus led Turkey to continue to seek an expansion of its relations with Communist countries. A high-level Soviet delegation led by Supreme Soviet member Nikolay Podgorny visited Turkey early in 1965. Though there were frequent references to closer economic relations and possible economic assistance no specific agreements were reached. A trade protocol signed in March provided for trade exchanges in 1965 totaling between \$44 million and \$52 million, which, if fulfilled, would result in a substantial increase over previous levels. In April it was announced that agreements had been reached with Bulgaria and Rumania for new reciprocal air routes between Istanbul and Western Europe via points in both Rumania and Bulgaria.

Communist economic aid commitments for the UAR's Seven Year Plan (1 July 1965 - 30 June 1972) continued to mount during the period. New East European extensions of more than \$176 million brought to about \$725 million the amount of Communist aid pledged for the program, exclusive of that portion of financial assistance currently being used for the Aswan High Dam. With Western economic aid commitments for projects at a virtual standstill, the role of the Communists among foreign donors is almost exclusive.

In February, agreements were signed with East Germany for two credits totaling about \$101 million as well as agreements for technical and scientific cooperation. In April, Czechoslovakia extended a credit of \$70 million to the UAR, and a 1962 credit of \$56 million (of which \$3 million had been drawn) was raised to \$61.6 million. In addition, Bulgaria has offered a credit of \$15 million, with details to be negotiated in September 1965, and Hungary expressed a willingness to provide assistance without committing any specific sum.

Large Soviet credits extended in 1963 and 1964 were the subject of much negotiation and numerous visits, but significant action on project implementation still is in the future. Some concomitant buildup in Soviet technical personnel assigned to the UAR is expected in the coming months. The USSR promised to complete construction of the Aswan High Dam a year ahead of schedule, and the UAR has requested Soviet financing of a series of smaller barrage dams on the lower Nile. June ended in a flurry of Cairo press acclaim for the USSR, which had agreed to provide the UAR with 300,000 tons of wheat, to be paid for in Egyptian pounds. The Egyptian debt to the USSR continued to grow -- in January 1965 the USSR noted that the UAR then owed the equivalent of \$50 million under the terms of the trade and payments agreement and that this indebtedness was expected to reach about \$190 million by 1970. Owing to

the difficulty the UAR is encountering in meeting debt payments, the Egyptians attempted to postpone all payments due during the years 1964-66 on the existing arms debt, but the USSR agreed only to reduce annual payments by 50 percent during 1965-67. Civil aviation agreements were signed with East Germany and Communist China.

Current Communist activities in Yemen reflect an amalgam of political undercurrents consisting of support for a revolutionary government, cooperation with the UAR in pursuit of parallel objectives, and Sino-Soviet competition. The existing problems tend to be exacerbated by the government's instability and the presence of some 50,000 UAR troops who are generally disliked by the Yemenis.

The Chinese have brought in large numbers of technicians and workers and are rapidly putting together a rather impressive textile factory that will be the first really modern industrial establishment in Yemen. Soviet activity under credits extended in 1964 still was confined largely to surveys and studies of various projects, but large-scale implementation is likely to get underway in the next few months.

The only new Communist economic aid received by Yemen during the period was about \$44 million in East German credits for agricultural projects, communications and power equipment, and medical assistance and a Bulgarian grant of \$400,000 for the construction of a school and the services of some agricultural technicians. The magnanimity of East Germany may, in part, have been a result of Yemen's suspension of the West German aid program and expulsion of its director during the height of tension between the Arabs and West Germany generated by the latter's arms aid to Israel.

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**AID AND TRADE ACTIVITIES OF COMMUNIST  
COUNTRIES IN LESS DEVELOPED AREAS  
OF THE FREE WORLD  
1 JANUARY - 30 JUNE 1965**

**SUMMARY**

(The complete text of this report has been published separately)

**EIC R14-S19**

**AUGUST 1965**

**ECONOMIC INTELLIGENCE COMMITTEE  
of the  
UNITED STATES INTELLIGENCE BOARD**

**SECRET**

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FOREWORD

The EIC-R14 series provides periodic summaries and analytical interpretations of significant developments in the economic relations and military aid activities of Communist countries with less developed countries of the Free World. These developments are reported on a current, factual basis in the Biweekly Reports in the EIC-WGR-1 series.

This report, covering the 6 months from 1 January through 30 June 1965, constitutes the nineteenth periodic supplement to EIC-R14, the initial report on Sino-Soviet Bloc Postwar Economic Activities in Underdeveloped Areas, 8 August 1956, SECRET. The present supplement updates the previous semiannual report and includes the more significant developments during the reporting period. It also relates noteworthy noneconomic activities, including military aid, to economic operations of the Communist countries in less developed areas. Data have been revised to include new information, and figures in the current supplement supersede those in previous issues. This report was prepared by the Department of State and the Central Intelligence Agency. The draft was reviewed and coordinated by a Working Group of the Economic Intelligence Committee, which includes representatives of the Department of State, the Defense Intelligence Agency, the Departments of Commerce and Agriculture, the Agency for International Development, the National Security Agency, and the Central Intelligence Agency. The final report was approved by the Economic Intelligence Committee on 12 August 1965.

In this report the term Communist countries refers primarily to the following countries that extend aid to less developed countries of the Free World: the USSR, Communist China, and the following countries of Eastern Europe -- Bulgaria, Czechoslovakia, East Germany, Hungary, Poland, and Rumania. For certain limited purposes the term also may include Albania, Cuba, Mongolia, North Korea, and North Vietnam, none of which is normally a donor of aid. Yugoslavia is not included.

The term less developed countries of the Free World includes the following: (1) all countries of Africa except the Republic of South Africa; (2) all countries in South and Southeast Asia; (3) Iceland, Portugal, and Spain; (4) all countries in Latin America except Cuba; and (5) all countries in the Middle East, including Cyprus, Greece, Syria, Turkey, and the United Arab Republic.

AID AND TRADE ACTIVITIES OF COMMUNIST COUNTRIES  
IN LESS DEVELOPED AREAS OF THE FREE WORLD  
1 JANUARY - 30 JUNE 1965

Summary

New Communist economic aid undertakings in less developed countries continued at a relatively high level during the first half of 1965 (see Figure 1). Communist economic credits and grants extended during the period totaled US \$458 million, bringing to almost \$7 billion the aggregate of economic assistance extended by all Communist countries since early 1954 (see Figure 2). The USSR may have agreed to contribute as much as \$1 billion to India's Fourth Five Year Plan (1 April 1966 - 31 March 1971), a sum not included in these figures.

The countries of Eastern Europe accounted for almost 80 percent of the total of new aid extended during the period, with East Germany, the largest donor, extending \$191 million in aid. The USSR and Communist China extended \$62 million and \$43 million, respectively, in new economic aid, substantially below the half-year levels of 1964. The United Arab Republic (UAR) was the recipient of nearly 40 percent of the total Communist aid extended during the period.

Drawings on Communist economic aid during the first half of 1965 totaled \$238 million, bringing to nearly \$2.4 billion the aggregate of such drawings since 1954. Outlays under aid provided by the USSR and the countries of Eastern Europe totaled \$179 million and \$33 million, respectively. Chinese Communist aid expenditures -- buoyed up by \$15 million in cash transfers -- continued their upward trend, amounting to \$26 million.

The number of Communist economic technicians employed in less developed countries rose to more than 16,800, continuing the upward trend that has characterized the program since its inception. While the numbers of Soviet and East European economic technicians increased moderately, the number of Chinese personnel increased by about 75 percent. Six countries -- Afghanistan, Algeria, Guinea, India, Mali, and the UAR -- accounted for more than 60 percent of all Communist technical personnel.

In June, 228 students graduated from People's Friendship University, the first group to graduate from this Soviet academic institution. During the 6-month period, only 145 new students enrolled in study programs in Communist countries, continuing the downward trend of such new arrivals evidenced since 1962. From a peak of 5,100 new enrollees in 1962, the number of arrivals dropped to about 3,100 in 1963 and to



slightly more than 2,000 in 1964. About 760 technical personnel from less developed countries undertook technical training programs in Communist countries during the first half of 1965.

Only three small military aid agreements were concluded during the period, but negotiations between the USSR and a number of less developed countries continued in high gear, and deliveries under existing agreements were maintained at a relatively high level. There was also an increase in the flow of Soviet arms to dissident groups -- particularly in Africa. Much of it was channeled through such intermediaries as Algeria and the UAR. The number of Communist military technicians employed in recipient countries rose moderately to a level of 3,750, while an additional 1,210 military personnel from these countries initiated training programs in Communist countries.

Trade turnover between the Communist countries and the less developed countries during 1964 totaled about \$3.3 billion, an increase of 13 percent above the level of 1963. This growth in trade during the year was due almost entirely to increases in Eastern European and Chinese Communist trade with the less developed countries. Although the Communist countries continued to account for a small share (about 5 percent) of the total trade of the less developed countries, they nevertheless continued to occupy a preponderant share of the trade of such countries as Afghanistan, Cambodia, Guinea, Mali, Syria, and the UAR.

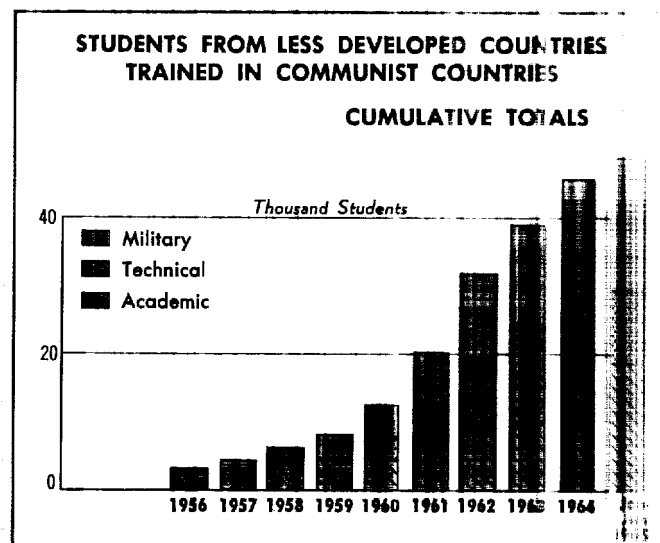
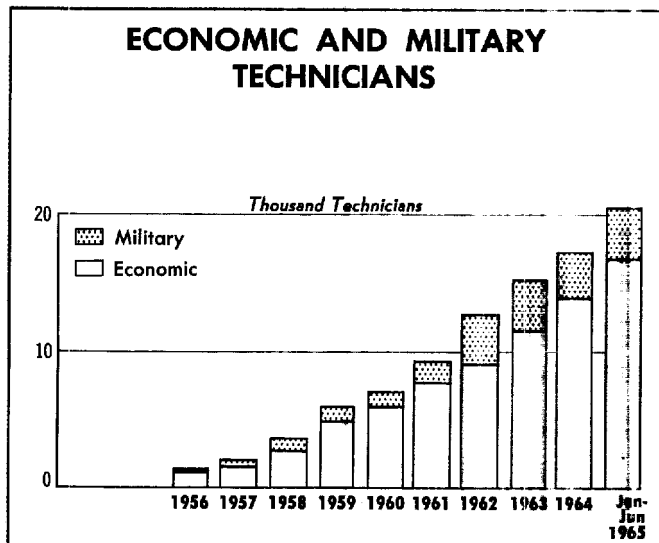
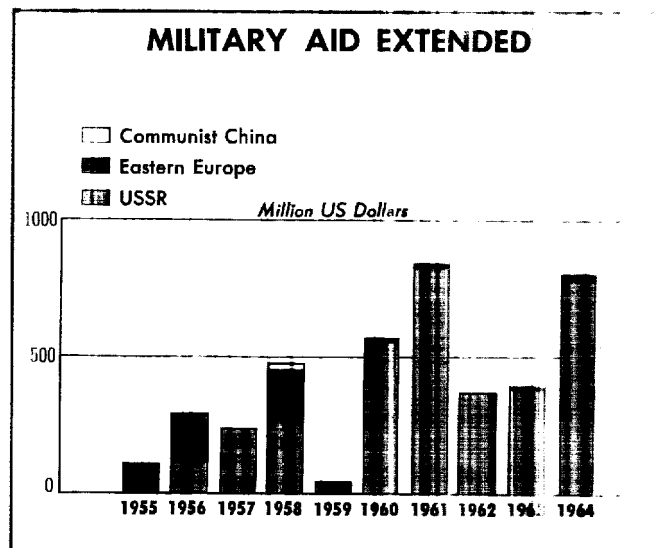
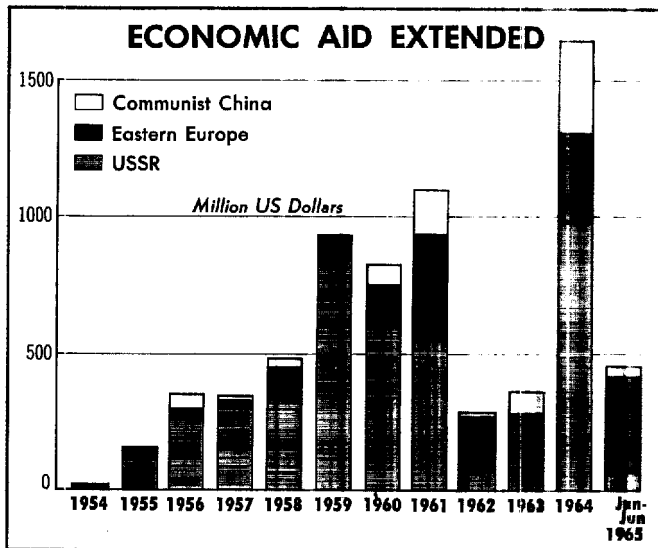
Among the respective less developed areas, Asia continued to account for the largest share -- 41 percent -- of Communist trade with the less developed countries. The Middle East represented 30 percent of the total; Latin America and Africa, 13 percent each; and the less developed countries of Europe, 3 percent. India and the UAR alone accounted for 35 percent of Soviet and East European trade with the less developed countries. Most of China's trade was with Argentina, Burma, Ceylon, Indonesia, and Malaysia.

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February

# **ECONOMIC ACTIVITIES OF COMMUNIST COUNTRIES IN LESS DEVELOPED COUNTRIES OF THE FREE WORLD**

**Selected Years, 1954-June 1965**

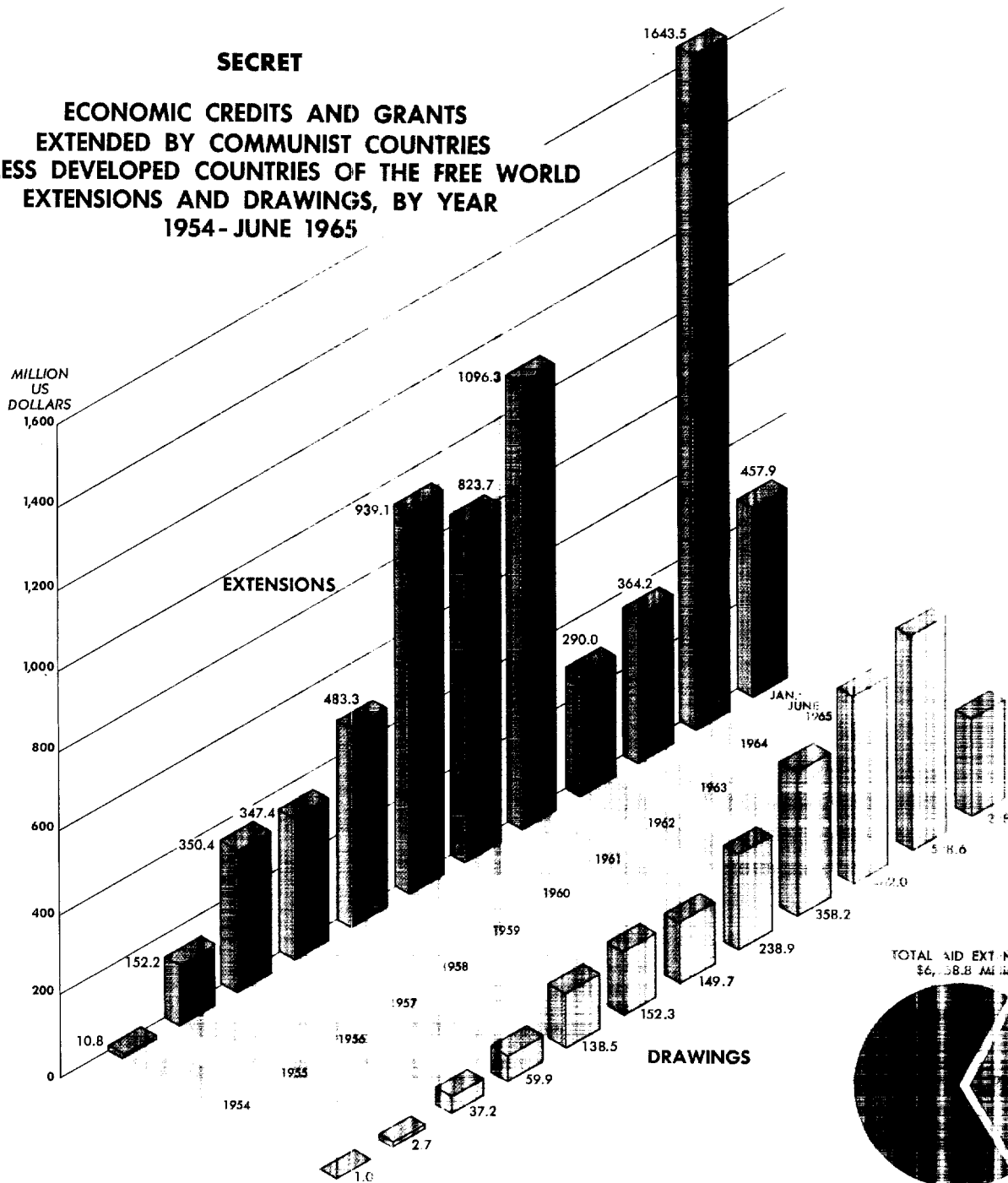


\*Data are revised periodically to include new information and therefore may not be comparable with data previously presented

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**ECONOMIC CREDITS AND GRANTS  
EXTENDED BY COMMUNIST COUNTRIES  
TO LESS DEVELOPED COUNTRIES OF THE FREE WORLD  
EXTENSIONS AND DRAWINGS, BY YEAR  
1954-JUNE 1965**



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**AID AND TRADE ACTIVITIES OF COMMUNIST  
COUNTRIES IN LESS DEVELOPED AREAS  
OF THE FREE WORLD  
1 JANUARY - 30 JUNE 1965**

**AUGUST 1965**

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This report, covering the 6 months from 1 January through 30 June 1965, constitutes the nineteenth periodic supplement to a report on Sino-Soviet Bloc Postwar Economic Activities in Underdeveloped Areas, 8 August 1956, SECRET. The present supplement updates the previous semiannual report and includes the more significant developments during the reporting period. It also relates noteworthy noneconomic activities, including military aid, to economic operations of the Communist countries in less developed areas. Data have been revised to include new information, and figures in the current supplement supersede those in previous issues.

In this report the term Communist countries refers primarily to the following countries that extend aid to less developed countries of the Free World: the USSR, Communist China, and the following countries of Eastern Europe -- Bulgaria, Czechoslovakia, East Germany, Hungary, Poland, and Rumania. For certain limited purposes the term also may include Albania, Cuba, Mongolia, North Korea, and North Vietnam, none of which is normally a donor of aid. Yugoslavia is not included.

The term less developed countries of the Free World includes the following: (1) all countries of Africa except the Republic of South Africa; (2) all countries in South and Southeast Asia; (3) Iceland, Portugal, and Spain; (4) all countries in Latin America except Cuba; and (5) all countries in the Middle East, including Cyprus, Greece, Syria, Turkey, and the United Arab Republic.

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New Communist economic aid undertakings in less developed countries continued at a relatively high level during the first half of 1965 (see Figure 1). Communist economic credits and grants extended during the period totaled US \$458 million, bringing to almost \$7 billion the aggregate of economic assistance extended by all Communist countries since early 1954 (see Figure 2). The USSR may have agreed to contribute as much as \$1 billion to India's Fourth Five Year Plan (1 April 1966 - 31 March 1971), a sum not included in these figures.

The countries of Eastern Europe accounted for almost 80 percent of the total of new aid extended during the period, with East Germany, the largest donor, extending \$191 million in aid. The USSR and Communist China extended \$62 million and \$43 million, respectively, in new economic aid, substantially below the half-year levels of 1964. The United Arab Republic (UAR) was the recipient of nearly 40 percent of the total Communist aid extended during the period.

Drawings on Communist economic aid during the first half of 1965 totaled \$238 million, bringing to nearly \$2.4 billion the aggregate of such drawings since 1954. Outlays under aid provided by the USSR and the countries of Eastern Europe totaled \$179 million and \$33 million, respectively. Chinese Communist aid expenditures -- buoyed up by \$15 million in cash transfers -- continued their upward trend, amounting to \$26 million.

The number of Communist economic technicians employed in less developed countries rose to more than 16,800, continuing the upward trend that has characterized the program since its inception. While the numbers of Soviet and East European economic technicians increased moderately, the number of Chinese personnel increased by about 75 percent. Six countries -- Afghanistan, Algeria, Guinea, India, Mali, and the UAR -- accounted for more than 60 percent of all Communist technical personnel.

In June, 228 students graduated from People's Friendship University, the first group to graduate from this Soviet academic institution. During the 6-month period, only 145 new students enrolled in study programs in Communist countries, continuing the downward trend of such new arrivals evidenced since 1962. From a peak of 5,100 new enrollees in 1962, the number of arrivals dropped to about 3,100 in 1963 and to

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slightly more than 2,000 in 1964. About 760 technical personnel from less developed countries undertook technical training programs in Communist countries during the first half of 1965.

Only three small military aid agreements were concluded during the period, but negotiations between the USSR and a number of less developed countries continued in high gear, and deliveries under existing agreements were maintained at a relatively high level. There was also an increase in the flow of Soviet arms to dissident groups -- particularly in Africa. Much of it was channeled through such intermediaries as Algeria and the UAR. The number of Communist military technicians employed in recipient countries rose moderately to a level of 3,750, while an additional 1,210 military personnel from these countries initiated training programs in Communist countries.

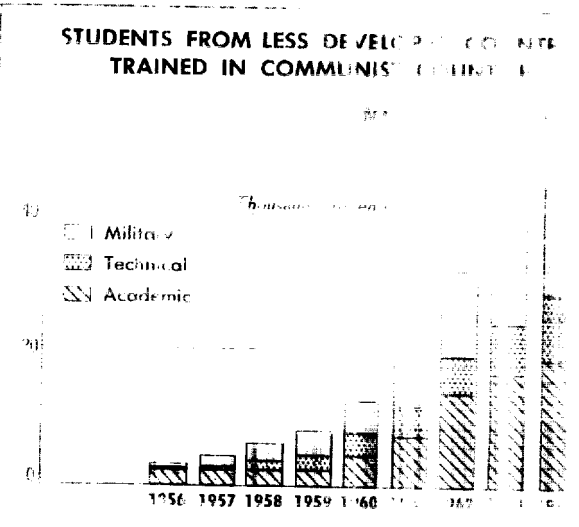
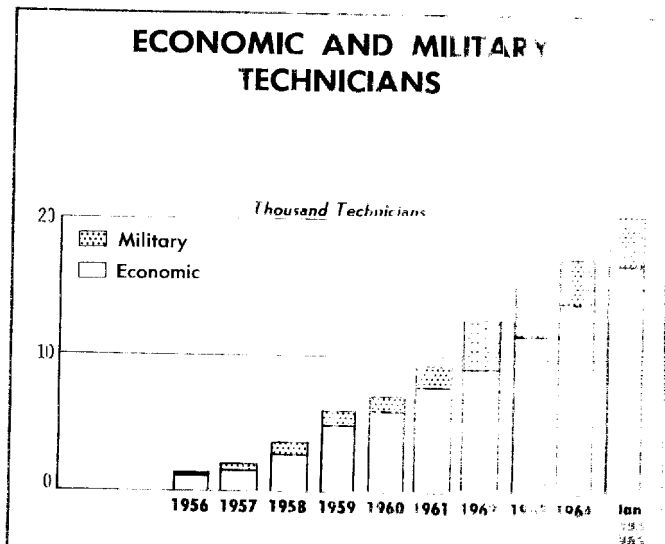
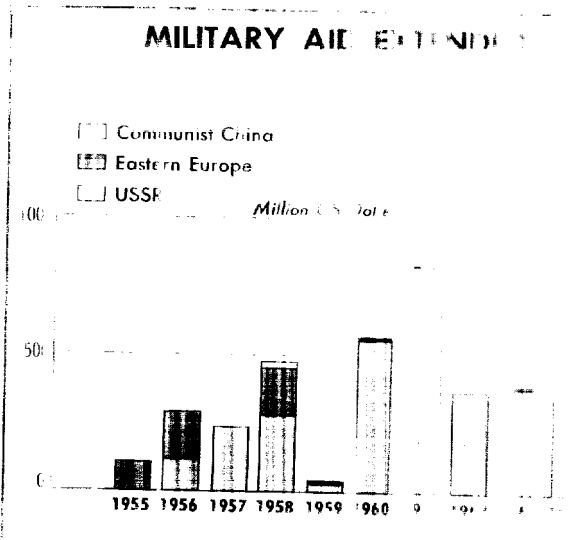
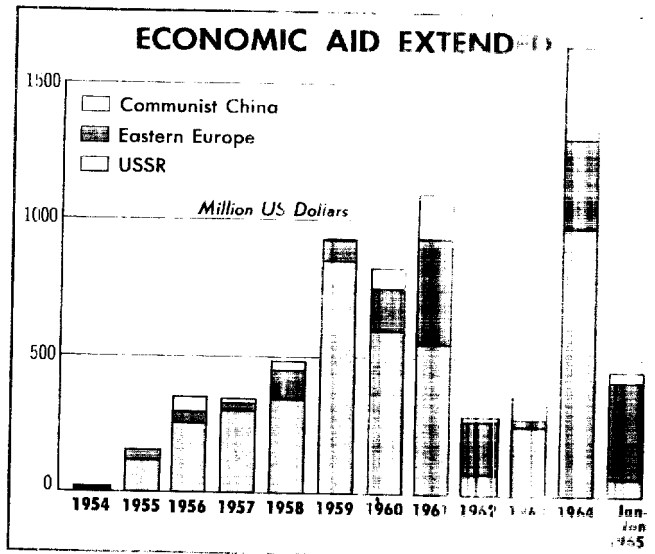
Trade turnover between the Communist countries and the less developed countries during 1964 totaled about \$3.3 billion, an increase of 13 percent above the level of 1963. This growth in trade during the year was due almost entirely to increases in Eastern European and Chinese Communist trade with the less developed countries. Although the Communist countries continued to account for a small share (about 5 percent) of the total trade of the less developed countries, they nevertheless continued to occupy a preponderant share of the trade of such countries as Afghanistan, Cambodia, Guinea, Mali, Syria, and the UAR.

Among the respective less developed areas, Asia continued to account for the largest share -- 41 percent -- of Communist trade with the less developed countries. The Middle East represented 30 percent of the total; Latin America and Africa, 13 percent each; and the less developed countries of Europe, 3 percent. India and the UAR alone accounted for 35 percent of Soviet and East European trade with the less developed countries. Most of China's trade was with Argentina, Burma, Ceylon, Indonesia, and Malaysia.

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# **ECONOMIC ACTIVITIES OF COMMUNIST COUNTRIES IN LESS DEVELOPED COUNTRIES OF THE FREE WORLD** Selected Years 1954-June 1965

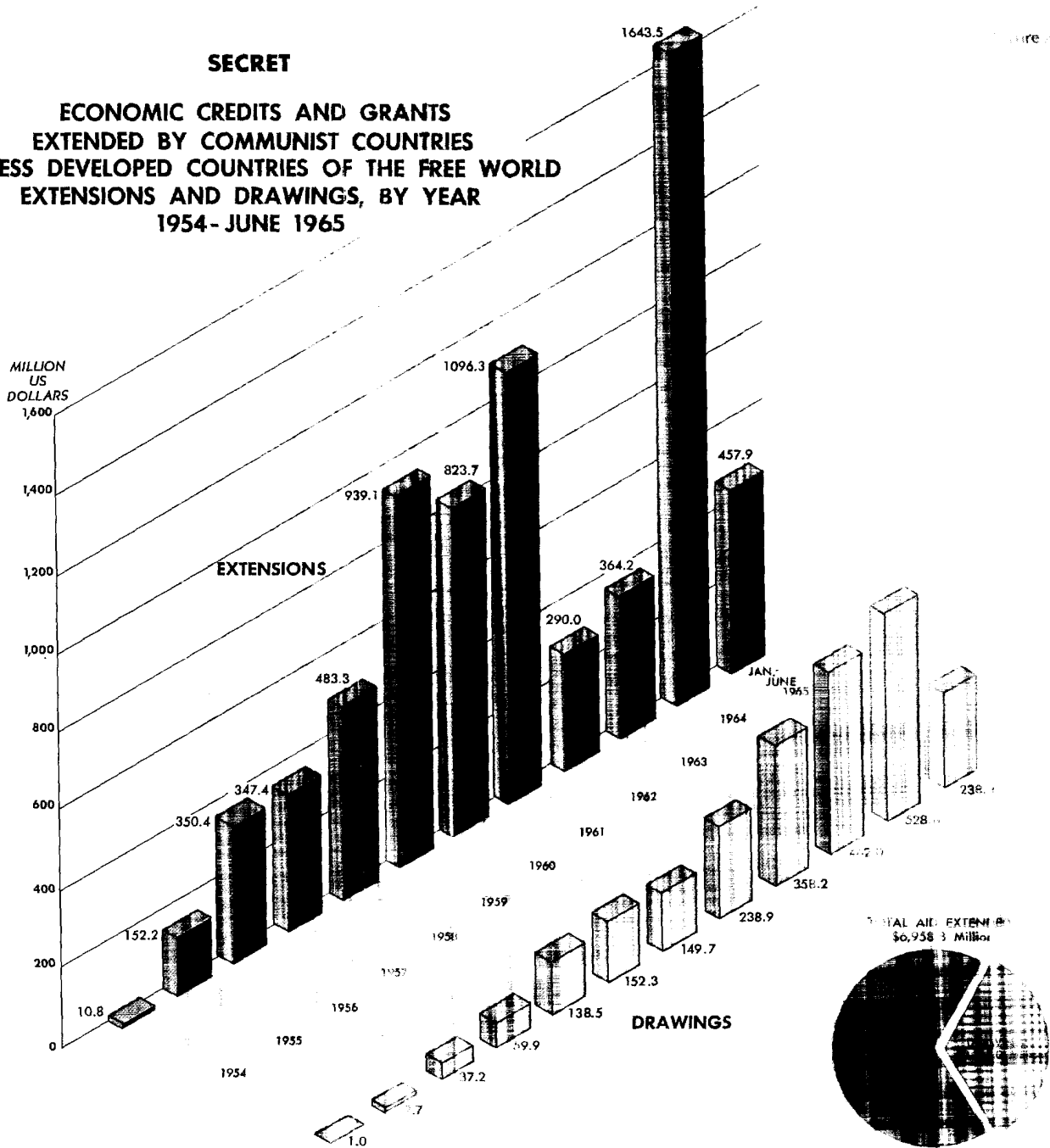


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**ECONOMIC CREDITS AND GRANTS  
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EXTENSIONS AND DRAWINGS, BY YEAR  
1954-JUNE 1965**



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# I. Economic Assistance

## A. Credits and Grants

New Communist economic aid commitments to less developed countries continued at a relatively high level during the first 6 months of 1965 (see Table 1\*). Such extensions totaled about \$458 million, bringing to almost \$7 billion the aggregate of economic assistance extended by Communist countries since the start of the program in 1954. The countries of Eastern Europe accounted for nearly 80 percent of total Communist aid extended during the first half of 1965 and surpassed the level of extensions by these countries for the whole of 1964. The USSR may have agreed to contribute as much as \$1 billion to India's Fourth Five Year Plan, which begins in 1966. (This figure is not included in the total Soviet extensions discussed in this report.)

The USSR extended \$62 million in known economic aid during the period, virtually all to Pakistan and Afghanistan. Economic aid extensions by the Chinese Communists totaled \$43 million, including their first credit to Afghanistan, a \$28 million credit for small industries and agricultural projects. Following the pattern of Chinese terms, the credit carries no interest and is to be repaid over 20 years after a 5-year grace period.

East Germany continued to expand the scope of its aid activities in the less developed countries. During the 6-month period it extended \$191 million in aid, compared with \$123 million committed by that country during the previous 11 years. This sharp upsurge in the level of aid undertakings reflects East Germany's determination to use its increased economic capability to exploit more fully the political potential of its aid program. It also is seeking to develop new outlets for machinery and equipment that generally are not marketable in the West. Among the other East European countries, Czechoslovakia, Poland, Hungary, and Bulgaria extended a total of \$162 million in new economic aid credits.

Drawings on Communist economic aid during the period totaled \$238 million, bringing to nearly \$2.4 billion the aggregate of such drawings since 1954. (Total drawings in 1964 amounted to \$529 million.) Outlays under the Soviet program totaled \$179 million during the period. Chinese Communist aid expenditures of approximately \$26 million -- buoyed up largely by \$15 million in cash transfers under long-term credits -- continued the upward trend evidenced since 1960. Drawings on credits extended by Eastern European Communist countries totaled \$33 million.

\* P. 4, below.

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## B. Technical Assistance

### 1. Economic Technicians

The number of Communist economic technicians employed in less developed countries rose to more than 16,800 during the first half of 1965 (an increase of about 15 percent above the previous 6-month period), continuing the upward trend which has characterized the program since its inception (see Table 7\*). Increases of varying magnitudes in the number of Communist technical personnel were registered in most recipient countries, primarily in Africa. Although the number of Soviet and East European technicians increased moderately, the number of Chinese personnel employed in recipient countries grew by 75 percent continuing the rapid increases evident during the past 18 months. Communist China accounted for nearly one-fourth of all Communist technicians in less developed countries during the period under review, about 60 percent of them employed in Africa. The USSR, which in earlier years had supplied about three-fourths of all technical personnel, accounted for only 55 percent. More than 60 percent of all Communist technicians were employed in Afghanistan, Algeria, Guinea, India, Mali, and the UAR.

The largest increases in technical personnel occurred in countries in which the pace of project activity increased during the period. About 1,150 additional Chinese economic technicians and laborers arrived to work in Congo (Brazzaville), Guinea, and Mali, bringing to more than 2,000 the number of such personnel in those three countries. There was a sharp increase in Communist technical assistance activities in Nepal and Yemen and in the UAR, where work proceeded on the main dam and the electric power grid system eventually to be fed by the Aswan High Dam's power stations.

### 2. Academic Students and Technical Trainees

Although the USSR in June awarded, amid great fanfare, 22 "Master of Science" degrees to the first graduating class of People's Friendship University, the number of new students arriving for academic study in Communist countries declined sharply during the period, continuing a trend evident since 1962. Only 145 new students enrolled in study programs during the first half of 1965, compared with 250 and 1,400 for the comparable periods in 1964 and 1963, respectively (see Table 9\*\*). Annual enrollment estimates reflect a similar downward trend. From a peak of more than 5,100 arrivals in 1962, the number of new enrollees dropped to about 3,100 in 1963 and to slightly more than 2,000 in 1964.

\* P. 34, below.

\*\* P. 38, below.



This declining enrollment in academic students is probably a result of a number of factors. There is some indication that academic authorities in the Communist countries are beginning to apply more stringent criteria in the award of scholarships. Foreign student discontent and demonstrations undoubtedly have created some reluctance on the part of some governments to send students to the Communist countries. Statements by leaders of various Eastern European Communist countries indicate that their patience with foreign student disturbances is growing short and that they have little desire to see the program substantially expanded. Soviet authorities too have become increasingly less tolerant of foreign student activities in the USSR and may not be encouraging the program's expansion.

The murder in mid-March of a Ghanaian student at Baku Preparatory School in Azerbaydzhan, which triggered a student "sit in" at the Baku railroad station, culminated in the summary repatriation of 29 Kenyans. Reportedly, foreign students at People's Friendship University and elsewhere boycotted classes in sympathy with the African students at Baku. In early March, Chinese students in Moscow adroitly maneuvered a protest demonstration by students from less developed countries against American policy in Vietnam into an openly anti-Soviet demonstration. This incident and others indicate that the Chinese are prepared to seize upon foreign student discontent and to use it to damage Soviet prestige. Soviet authorities, cognizant of the effect of foreign student disturbances on the Soviet image and piqued by what they consider a lack of gratitude, have in turn tightened up their policies toward foreign students, preventing demonstrations and threatening to expell foreign students who become involved in unauthorized activities.

During the first half of 1965, about 760 nationals from less developed countries undertook technical training programs in Communist countries, bringing the total number who have undertaken this training since 1956 to more than 10,600. As of June 1965, 2,380 of these were still being trained in Communist countries (see Table 8\*).

## II. Military Assistance

### A. Credits and Grants

The only Communist military aid agreements believed to have been signed during the period were between the USSR and Congo (Brazzaville) and between Communist China and Algeria and Uganda. Although the value of these agreements is as yet undetermined, it doubtless is of small magnitude. Despite the low level of new commitments, negotiations continued in high gear. There was much two-way travel of representatives of donors and recipients, with the high point in this activity occurring in early May during the Moscow celebration commemorating the twentieth anniversary of VE Day. Military delegations from Algeria, Ghana, India,

\* P. 36, below.

Indonesia, Mali, Syria, and the UAR met with their Soviet counterparts, during which time military aid probably was discussed. The cumulative total of Communist military aid extended between 1955 and June 1965 now totals about \$4.1 billion (see Table 2).

Table 2

Military Aid Extended by Communist Countries  
to Less Developed Countries of the Free World  
September 1955 - June 1965

	Million Current US \$
Estimated minimum value	4,268
Less downpayments	136
<u>Amount of aid</u>	<u>4,132</u>
Credits	2,480
Discounts and grants	1,652

Deliveries of military equipment under earlier agreements also continued at a relatively high level, especially to Cyprus, India, Indonesia, Somalia, and the UAR. Various contracts were signed for the delivery of equipment embraced in the Soviet-Egyptian arms accord of November 1964. Some of the equipment to be supplied reportedly has never been provided to any other non-Communist country -- for example, R-class submarines, Su-7 fighter-bombers, and T-55 medium tanks. While ordering new equipment the UAR attempted to postpone all payments due during the years 1964-66 on its existing arms debt. Although the USSR refused to grant a complete moratorium for the period, it did agree to reduce annual repayments by 50 percent during 1965-67.

The period witnessed Soviet implementation of an agreement signed with Cyprus in September 1964 -- with the UAR serving as the channel for the delivery of artillery, tanks, and surface-to-air missile (SAM) equipment -- and a broadening of the Soviet-Indian military aid relationship. Previously concerned with procuring only aircraft and SAM equipment, India contracted for the purchase of Soviet tanks and artillery under a 1964 agreement. In view of current Western unwillingness to provide India with naval equipment, India may also accept Soviet offers of such equipment, negotiations for which were begun in 1964. It is as yet uncertain how Boumedienne's takeover from

Ben Bella in Algeria in June will affect the Soviet military aid program in that country, but it is worthy of note that Boumedienne has been Algeria's chief negotiator for arms in Moscow and it is unlikely that the types and quantities of arms sought by Algeria will be forthcoming from other sources. It is possible that a technical aid agreement signed by him in May included additional weaponry beyond that covered in the October 1963 agreement.

A unique development occurred in late April, when Kenya rejected a shipload of tanks, armored cars, mortars, and small arms from the USSR, charging that the weaponry was "old, secondhand, and of no use to the modern army of Kenya." Although resulting in some embarrassment to the USSR, the action was motivated as much by internal political differences between President Kenyatta and Vice President Odinga as by the alleged condition of the equipment. The action was followed a month later by Kenyatta's temporary blockage of a Ugandan convoy transiting Kenya en route to Uganda with a cargo of Chinese Communist arms.

During the first half of 1965 there was an increase in the flow of Soviet arms to dissident groups -- particularly in Africa. The bulk of this activity was channeled through intermediaries such as Algeria and the UAR. Other countries involved in this relay were Congo (Brazzaville), Ghana, Sudan, Tanzania, and Uganda.

Maintenance and repair inadequacies continued to limit the effectiveness of Soviet weaponry delivered to less developed countries. Shortages of spares and replacement parts have made much equipment inoperable. Iraq, Syria, and the UAR previously had provided for repair workshops in their agreements with the USSR, and India -- more sophisticated in such matters -- is contracting for them in conjunction with initial purchases of major equipment. Presumably other countries will improve their repair capabilities but, as more advanced weaponry flows to less sophisticated recipients, the problem will continue to be a vexing one.

## B. Technical Assistance

### 1. Military Technicians

With the continuing deliveries of equipment to military aid recipients, the number of Communist military technicians continued to be maintained at a relatively high level. During the period the number of such technicians from Communist countries employed in less developed countries rose to 3,750, an increase of 250. With the continued proliferation of advanced weapons systems into the less developed countries, the number of Communist military technicians present in those countries should continue to rise.

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## 2. Military Trainees from Less Developed Countries

During the first 6 months of 1965, an additional 1,210 nationals from nine less developed countries enrolled in military programs in Communist countries, primarily in the USSR. Indonesia and Algeria accounted for about 700 of the new departures. Seventeen less developed countries of the Free World have now sent nearly 19,430 military personnel to Communist countries for training, with approximately 3,680 still engaged in such programs at the end of June. Indonesia has accounted for about 45 percent of the total number trained, and five other countries -- the UAR, Afghanistan, Syria, Iraq, and Algeria -- account for about another 45 percent. Since the start of the program in 1955, the USSR has accommodated about 85 percent of the total number trained.

### III. Trade

#### A. Value

In 1964, trade turnover between the Communist area, excluding Cuba,\* and the less developed countries of the Free World amounted to \$3.3 billion,\*\* an increase of 13 percent above the 1963 level, compared with a 17-percent gain recorded in 1963 over 1962. The growth of trade in 1964 was due almost entirely to increases in Eastern European and Chinese Communist trade with the less developed countries. Soviet trade with these countries held steady at about the \$1.1 billion level of 1963. As a result, the Soviet share of Communist trade with the less developed countries fell to 34 percent compared with 37 percent in 1963. Within the Communist area the countries of Eastern Europe continued to be the most important trading partners for less developed countries, accounting for 45 percent of total Communist trade with less developed countries. The largest percentage increase in trade between the Communist and less

\* Cuba's trade with the less developed countries in 1964 totaled \$221 million, about 60 percent above the 1963 level. Morocco, Spain, and the UAR continued to account for the major portion of this trade. For data on Cuba's exports to and imports from individual less developed countries, see Tables 12 and 13, pp. 49 and 51, respectively, below.

\*\* The value figures presented in this section are based primarily on trade statistics as reported by less developed countries themselves and are the only figures currently available for 1964. It should be noted, however, that because of time lags, differences in reporting methods, and coverage of less developed countries, these figures differ considerably from those on the same trade as reported in official Communist sources. One major difference stems from the fact that some less developed countries do not include in their trade returns those imports received under long-term economic credits whereas the Communist countries report as exports all goods furnished on credit, with the result that the value of this trade according to Communist sources exceeds the value reported by less developed countries.

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developed countries was recorded by Communist China, whose trade with these countries amounted to \$680 million -- an increase of 40 percent above that of 1963.\*

The failure of Soviet trade with the less developed countries to reflect any noticeable increase was due primarily to a leveling off of imports by the USSR, resulting largely from a reduction of 91,400 tons\*\* (roughly \$50 million) in its purchases of Malaysian rubber -- a reduction not compensated for by increased Soviet purchases of rubber elsewhere in the less developed world. Soviet exports to these countries in 1964 increased by only 6 percent, compared with a 15-percent gain in 1963. This slackening in the growth of Soviet exports was due primarily to absolute declines in exports to Brazil, Spain, and Sudan. The USSR's exports to its major markets in the less developed areas -- Afghanistan, India, and the UAR -- however, continued to expand.

The share of the less developed countries in total Communist trade in 1964 was 8 percent, the same share as in 1963, whereas the Communist area's share in the aggregate trade of the less developed countries remained at 5 percent, the same share as in previous years. In spite of these relatively low ratios, the Communist area continued to occupy a preponderant share of the trade of certain less developed countries. The Communist area supplied between one-fourth and one-half of the imports of Afghanistan, Cambodia, Guinea, and Mali and absorbed between one-fifth and two-fifths of the exports of Afghanistan, Greece, Guinea, Mali, Syria, and the UAR and the nonpetroleum exports of Iran and Iraq. Moreover, Communist countries continued to purchase sizable portions of those products which are the major earners of convertible currency for some less developed countries. They purchased 15 percent of Ghana's total exports of cocoa beans in 1964, 56 percent of the UAR's exports of cotton during the period 1 August 1964 through 21 June 1965, and 65 percent of Syria's exports of cotton during the 1964/65 marketing year.\*\*\*

#### B. Direction

Communist trade with the less developed countries continued to be concentrated on a relatively small number of partners: India and the UAR accounted for 35 percent of Soviet and Eastern European trade with the less developed countries in 1964. For the USSR alone, this share was much higher -- almost 43 percent. This concentration reflects, in part, a trade momentum generated by deliveries under Communist long-term economic credits and repayments of these and military credits in the form of commodities. Communist China's trade continued

\* For detailed data on Communist exports to and imports from individual less developed countries, see Tables 10 and 11, pp. 41 and 45, respectively, below.

\*\* Tonnages are given in metric tons throughout this report.

\*\*\* For data on the Communist share of the total exports and imports of selected less developed countries, see Table 14, p. 53, below.

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to be conducted mainly with its Asian neighbors -- Burma, Ceylon, Malaysia, and Indonesia -- and the UAR. In addition, Argentina, because of large grain sales to Communist China, became a major trading partner in 1964, accounting for almost one-third of Chinese Communist imports from less developed countries.

By geographic area, Asia continued to account for the largest share -- about 41 percent -- of Communist trade with the less developed countries. Communist trade with this area amounted to almost \$1.4 billion, an increase of 16 percent above the 1963 level. Exports to the area rose by 17 percent, largely because of increased deliveries to Pakistan, India, Ceylon, and Indonesia. Increased purchases from the latter three countries more than offset the nearly 40-percent decline in Malaysian rubber purchases and accounted for most of the 15-percent increase recorded in Communist imports from the area.

Communist trade with the less developed countries of the Middle East increased by 7 percent to nearly \$990 million, accounting for 30 percent of Communist trade with the less developed countries. Exports to the Middle East rose by 9 percent, reflecting primarily increased deliveries to the UAR, Iran, and Syria. The latter two countries plus Greece also contributed most heavily to the 6-percent increase in Communist imports from the Middle East.

The share of Latin America in trade between the Communist and less developed areas rose to 13 percent in 1964, compared with 10 percent in 1963, and amounted to \$417 million. The increase stemmed primarily from a \$119 million rise in Communist imports from the area, primarily Chinese Communist purchases of more than 1 million tons of grain, mainly wheat, from Argentina. Exports held steady at \$118 million, about the same level as in 1963. For the first time in several years, trade with Brazil, the other major Latin American trading partner for the Communist area, declined in spite of resumed Communist trade promotional activities in Brazil, greatly increased deliveries of Soviet petroleum during the last quarter of 1964, and the government's policy of encouraging imports from Communist countries in order to liquidate the favorable balance which Brazil holds with these countries.

Communist trade with Africa increased by 9 percent to the level of \$416 million in 1964, but Africa's share in Communist trade with less developed areas remained at 13 percent. Communist imports from Africa rose by only 4 percent, primarily because of smaller purchases from Sudan, Ghana, and Guinea. The decline in imports from Sudan was due almost entirely to a drop in Communist purchases of Sudanese long-staple cotton. Communist purchases of cocoa beans from Ghana also declined in 1964, totaling roughly 56,000 tons, compared with 72,000 tons in 1963, but these purchases are expected to rise again in 1965 to an estimated 140,000 to 150,000 tons. Although imports from Ghana declined, it should be noted that Communist exports to this country increased by almost 50 percent in 1964 as a result of the Ghanaian policy of expanding

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imports from the Communist area by means of import licensing controls. This increase in Communist exports to Ghana accounted for most of the 14-percent gain noted in Communist exports to Africa.

Trade between the Communist area and the less developed countries of Europe -- Iceland, Portugal, and Spain -- remained small, amounting to \$102 million, a decline of 18 percent from 1963. In terms of total Communist trade with all less developed countries, these European countries accounted for only 3 percent.

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